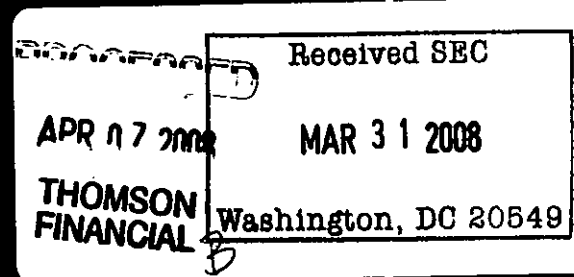
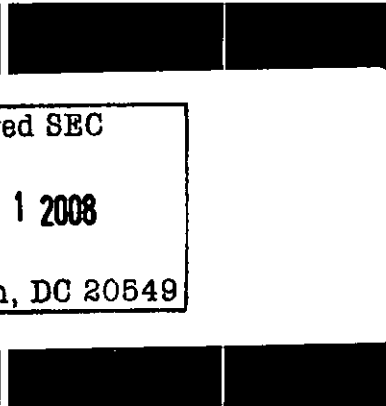
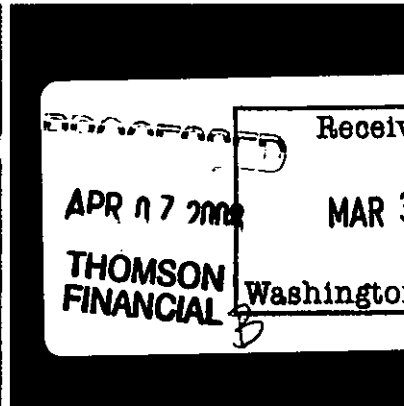
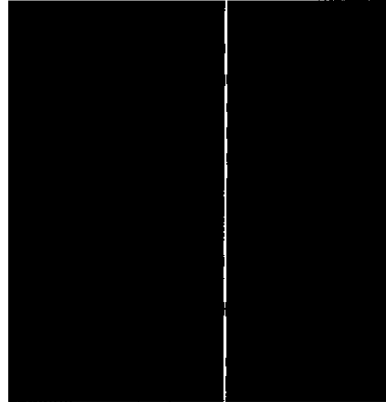


Annual Report



CROGHAN

Bancshares, Inc.



Vision

To be the financial institution that every client trusts with all of their banking business and stays with for life.

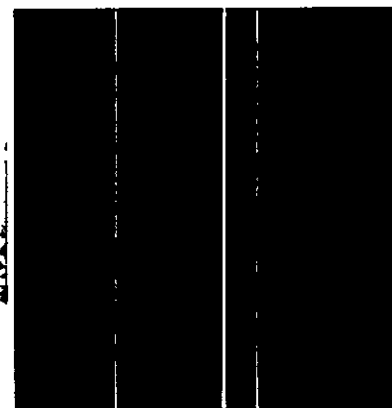
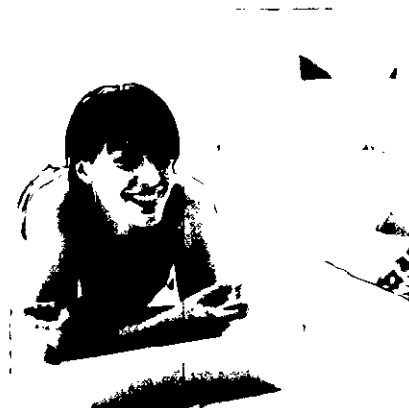
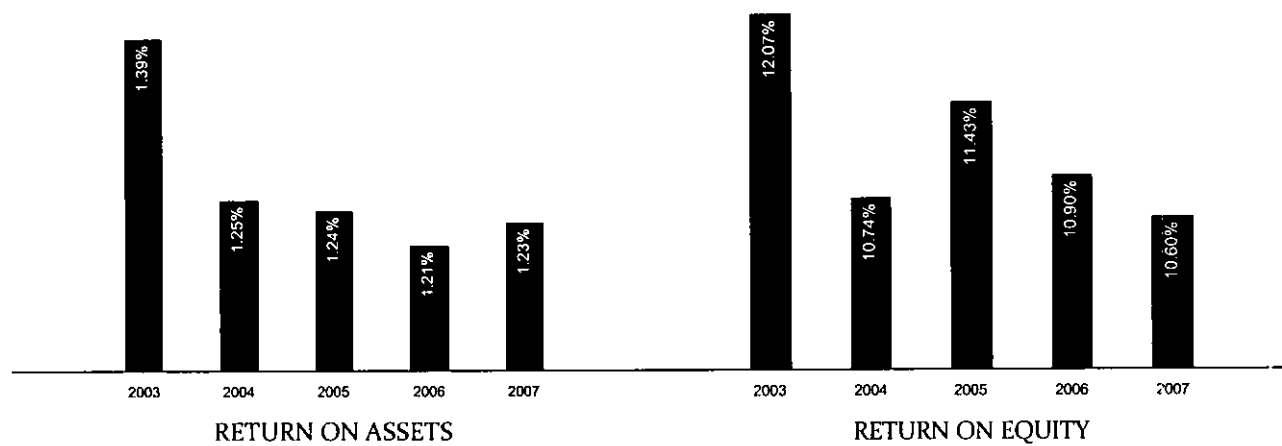
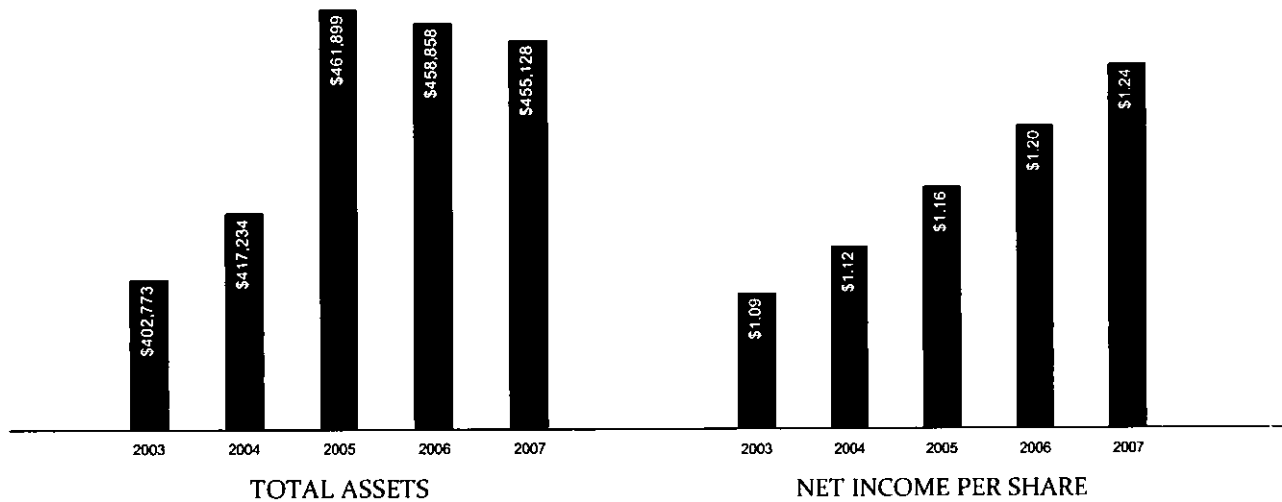


Mission

To support the financial education and well-being of every client, employee, shareholder and community we serve.



financial HIGHLIGHTS



to our SHAREHOLDERS

Our vision is to be the financial institution that every client trusts with all of their banking business, and stays with for life. That requires an integrated focus on the quality of our service, the deepening of our client relationships and a ferocious integrity when considering our growth strategies. Driving those are five unique factors we have never strayed from:

- We create strong market positions and focus on organic growth.
- We deliver a great customer experience.
- We relentlessly focus on operational excellence.
- We work to get the job done every single day better than our competitors.
- We build for the future by constantly ensuring the quality of our business.

Put all that together, and you have a bank that can outperform its peers and stay above the fray in a turbulent market. That's exactly what Croghan has done.

Going into 2007, we recognized that net interest margin pressure would continue and it did. It also served as a strong validation of our commitment to hold credit quality as a core value. As the national sub-prime issues began to impact the banking industry as a whole, we avoided the pitfalls and outperformed our peers. The successful management of our risk-reward profile is a strategic advantage for us and will serve not only our footing in the markets we serve, but also support the value of our franchise well into the future.

FINANCIAL SUMMARY

As illustrated in the Financial Highlights section, the overall economic environment was not conducive to ideal performance in 2007. The increase in market rates exerted pressure on our net interest margin throughout the year, which resulted in a decline in net interest income. We were, however, able to somewhat mitigate the decline with our focus on liability management and reducing funding costs. Following are some key points of our 2007 performance:

- Earnings per common share: \$3.13
- Dividends per common share: \$1.24
- Net income of \$5,511,000 produced a return on average assets of 1.23% and return on average equity of 10.60%
- The provision for loan losses, as well as loan delinquencies and net loan charge-offs all decreased during 2007 as compared with 2006.
- Another important measure of productivity and our ability to manage expenses was our efficiency ratio of 61.34% for the year.

Year in Review

Whether it was to enhance our disaster recovery processes, ensure the continuity of our online banking channels or to maximize information security and efficiency, we underwent technological improvements in 2007. Also, our commitment to operational efficiency and quality client service has led us to commit to a Client Relationship Management system. Our strategy for this system includes executing technology to more effectively target and develop valuable clients, realign our processes, and deliver the products and services that are optimal for our clients and the bottom line.

On the product development side, we launched a program that provides a collection of services and benefits aimed at our commercial clients' employee base. Croghan-at-Work is different than others we've seen in our competitive market area because it's focused on customized solutions to help the client become more financially healthy.

The product development initiatives that had the greatest impact on the bottom line this year were the institution of a savings account monthly fee when the account balance falls below a required minimum. We also enhanced our overdraft procedures, which not only made sure clients are more protected from return check situations, but also contributed to an increase in fee income.

Another exciting development this year was the introduction of a Unified Overlay Program through the Wealth Management division. The service is a part of our concentration on bringing innovative and personalized investment strategies to high net worth clients on a local basis and at a much more reasonable cost.

Finally, in response to our Norwalk market demands, we've completed the remodeling project, allowing us to offer full-service banking, including drive thru banking and extended banking hours. The new office replaced the current private banking center in downtown Norwalk.

People

We continue to benefit from the consistency that evolves through technology, product and service enhancements and a team of experienced bankers who are committed to our clients and the communities we serve.

I have to acknowledge the more than 160 spirited employees who powered all of our initiatives in 2007. To them I say thank you for your dedication and steadfast belief in the great things we know we can accomplish together.

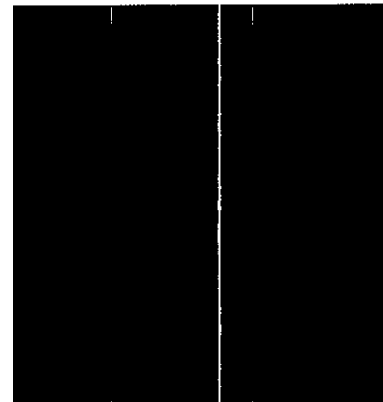
Thank you to our many clients we are fortunate enough to serve every day, and as always, thank you for your support as a Croghan shareholder.

Sincerely,



Steven C. Fufrell
President & CEO

January 2008





DIRECTORS EMERITI

Croghan Bancshares, Inc.

Ted L. Hilty
Thomas F. Hite
Don W. Miller

Robert H. Moyer
Albert C. Nichols
Clemens J. Szymanowski

OFFICERS

Croghan Bancshares, Inc.

Steven C. Futrell
*President & Chief
Executive Officer*

Barry F. Luse
*Vice President &
Secretary*

Thomas J. Elder, Jr.
Vice President

Kendall W. Rieman
*Vice President &
Treasurer*

DIRECTORS

James E. Bowlus
*President & Treasurer
Fremont Candy &
Cigar, Inc.*

Stephen A. Kemper
*Owner
Kemper Iron &
Metal Company*

Claire F. Johansen
Retired

J. Terrence Wolfe
Retired

Gary L. Zimmerman
*President
Swint-Reineck
Hardware, Inc.*

Daniel W. Lease
*Vice President
Whetstone
Technology, LLC*

Allan E. Mehlow
*Secretary/Treasurer
The Mosser Group*

Thomas McLaughlin
*Vice President/CFO
Underground Utilities, Inc.*

James R. Faist
*Vice President of Finance
Crown Battery Manufacturing
Company*

Michael D. Allen, Sr.
*Executive Vice President
& General Manager
International Metal
Hose Company*

Steven C. Futrell
*President & Chief
Executive Officer
The Croghan
Colonial Bank*

SENIOR MANAGEMENT

Jodi A. Albright
*Vice President
Retail Services Manager*

Barry F. Luse
*Vice President
Trust Officer*

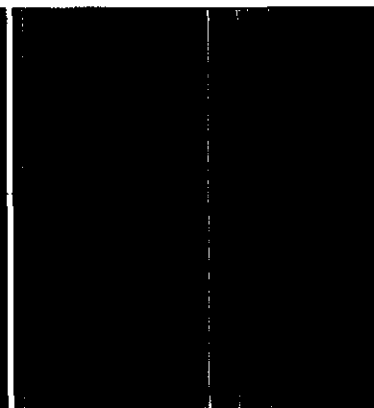
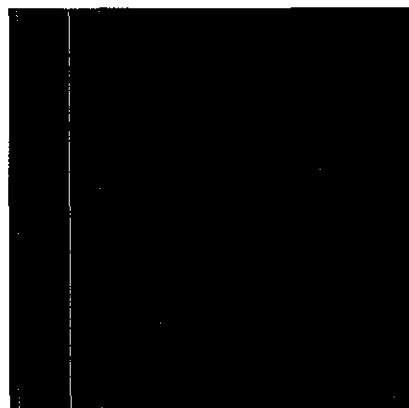
Thomas J. Elder, Jr.
*Vice President
Chief Lending Officer*

Steven C. Futrell
*President &
Chief Executive Officer*

Michael J. Hartenstein
*Vice President
Technology and Operations
Manager*

Kendall W. Rieman
*Vice President
Chief Financial and
Operations Officer*

Pamela J. Swint
*Assistant Vice President
Human Resources Manager*



Financial Information
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Registration
Statement

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Washington, DC
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CROGHAN

Bancshares, Inc.

CROGHAN BANCSHARES, INC.

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FINANCIAL HIGHLIGHTS

	2007	2006	Percent Change
For the year:			
Net income	\$5,511,000	\$5,489,000	.4 %
Income per common share	3.13	3.03	3.3 %
Dividends per common share	1.24	1.20	3.3 %
Return on average assets	1.23%	1.21%	
Return on average stockholders' equity	10.60%	10.90%	
At year end:			
Assets	\$455,128,000	\$458,858,000	(0.8)%
Loans	350,514,000	357,278,000	(1.9)%
Securities	51,479,000	61,913,000	(16.9)%
Deposits	362,833,000	371,194,000	(2.3)%
Stockholders' equity	53,288,000	51,163,000	4.2 %
Book value per common share	\$30.53	\$28.65	6.6 %
Stockholders' equity to total assets	11.71%	11.15%	
Number of stockholders of record	733	758	(3.3)%
Number of full-time equivalent employees	152	156	(2.6)%

CROGHAN BANCSHARES, INC.

DESCRIPTION OF THE CORPORATION

Croghan Bancshares, Inc., an Ohio corporation (the "Corporation" or "Croghan"), is a bank holding company incorporated in 1983 with \$455,128,000 in total assets as of December 31, 2007. Croghan owns all of the outstanding shares of The Croghan Colonial Bank (the "Bank"), an Ohio state-chartered bank incorporated in 1888 and headquartered in Fremont, Ohio.

The Bank offers a diverse range of commercial and retail banking services through its 11 offices located in Bellevue, Clyde, Custar, Fremont, Green Springs, Monroeville, Norwalk, and Port Clinton, Ohio. Products are comprised of traditional banking services such as consumer, commercial, agricultural and real estate loans, personal and business checking accounts, savings accounts, time deposit accounts, safe deposit box services, and trust department services. Investment products bearing no FDIC insurance are offered through the Bank's Trust and Investment Services Division.

MARKET PRICE AND DIVIDENDS ON COMMON SHARES

The Corporation's common shares are quoted on the OTC Bulletin Board under the symbol "CHBH." The following table shows the ranges of high and low price quotations, as reported on the OTC Bulletin Board, for the Corporation's common shares for each quarterly period during 2007 and 2006. OTC Bulletin Board quotations reflect inter-dealer prices, without mark-up, mark-down, or commission and may not necessarily represent actual transactions.

	2007		2006	
	Low	High	Low	High
First Quarter	\$35.00	37.25	\$35.75	37.50
Second Quarter	36.60	40.00	35.70	39.00
Third Quarter	38.10	39.90	35.35	37.75
Fourth Quarter	34.25	39.75	34.11	35.75

Dividends declared by the Corporation on its common shares during the past two years were as follows:

	2007	2006
Three-months ended March 31	\$.31	\$.30
Three-months ended June 30	.31	.30
Three-months ended September 30	.31	.30
Three-months ended December 31	<u>.31</u>	<u>.30</u>
	<u>\$1.24</u>	<u>\$1.20</u>

The ability of the Corporation to declare and pay dividends on its common shares is dependent, in large part, on dividends received from the Bank. The ability of the Bank to pay dividends is subject to certain legal and regulatory limitations described in Note 15 to the Corporation's Consolidated Financial Statements, which begin on page 18 of the Annual Report.

There were 733 holders of record of the Corporation's common shares on January 31, 2008.

AVAILABILITY OF MORE INFORMATION

To obtain a copy of the Corporation's annual report on Form 10-K filed with the Securities and Exchange Commission, please write to:

Croghan Bancshares, Inc.
Barry F. Luse, Secretary
323 Croghan Street
Fremont, OH 43420

CROGHAN BANCSHARES, INC.

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

	2007	Years ended December 31,			2003
		2006	2005	2004	
		(Dollars in thousands, except share data)			
Statements of operations:					
Total interest income	\$ 27,752	\$ 26,904	\$ 25,385	\$ 21,724	\$ 22,033
Total interest expense	10,524	9,613	7,310	5,699	6,405
Net interest income	17,228	17,291	18,075	16,025	15,628
Provision for loan losses	100	380	705	716	430
Net interest income, after provision for loan losses	17,128	16,911	17,370	15,309	15,198
Total non-interest income	3,486	3,035	2,761	2,916	2,991
Total non-interest expenses	12,755	12,168	12,077	10,964	10,354
Income before federal income taxes	7,859	7,778	8,054	7,261	7,835
Federal income taxes	2,348	2,289	2,333	2,143	2,407
Net income	<u>\$ 5,511</u>	<u>\$ 5,489</u>	<u>\$ 5,721</u>	<u>\$ 5,118</u>	<u>\$ 5,428</u>
Per share of common stock:					
Net income	\$ 3.13	\$ 3.03	\$ 3.05	\$ 2.70	\$ 2.86
Dividends	1.24	1.20	1.16	1.12	1.09
Book value	<u>30.53</u>	<u>28.65</u>	<u>27.07</u>	<u>25.83</u>	<u>24.32</u>
Average shares of common stock outstanding	<u>1,763,320</u>	<u>1,814,011</u>	<u>1,877,987</u>	<u>1,897,582</u>	<u>1,900,152</u>
Year end balances:					
Loans, net	\$347,156	\$353,678	\$337,286	\$319,058	\$302,905
Securities	51,479	61,913	81,421	61,323	64,236
Total assets	455,128	458,858	461,899	417,234	402,773
Deposits	362,833	371,194	368,459	326,093	312,407
Stockholders' equity	<u>53,288</u>	<u>51,163</u>	<u>49,931</u>	<u>48,916</u>	<u>46,196</u>
Average balances:					
Loans, net	\$343,979	\$337,538	\$340,158	\$309,957	\$286,138
Securities	55,007	70,090	72,131	62,178	69,878
Total assets	448,489	452,209	459,707	408,688	391,416
Deposits	364,481	366,261	368,315	318,430	307,346
Stockholders' equity	<u>52,011</u>	<u>50,357</u>	<u>50,052</u>	<u>47,672</u>	<u>44,983</u>
Selected ratios:					
Net yield on average interest-earning assets	4.27%	4.19%	4.30%	4.27%	4.30%
Return on average assets	1.23	1.21	1.24	1.25	1.39
Return on average stockholders' equity	10.60	10.90	11.43	10.74	12.07
Net loan charge-offs as a percent of average outstanding net loans	.10	.12	.22	.22	.26
Allowance for loan losses as a percent of year-end loans	.96	1.01	1.06	1.06	1.11
Stockholders' equity as a percent of total year-end assets	<u>11.71</u>	<u>11.15</u>	<u>10.81</u>	<u>11.72</u>	<u>11.47</u>

Amounts after January 1, 2005 reflect the purchase of The Custar State Bank.

CROGHAN BANCSHARES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides additional information relating to Croghan's financial condition and results of operations. This information is presented to further the reader's understanding of Croghan's Consolidated Financial Statements, which begin on page 18 of the Annual Report.

FORWARD-LOOKING STATEMENTS

Where appropriate, the following discussion contains the insights of management into known events and trends that have or may be expected to have a material effect on Croghan's operations and financial condition. The information presented may also contain forward-looking statements regarding future financial performance, which are not historical facts and which involve various risks and uncertainties. Croghan cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and advises readers that various factors including regional and national economic conditions, changes in the levels of market interest rates, and competitive and regulatory issues could affect Croghan's financial performance and cause the actual results for future periods to differ materially from those anticipated or projected.

Without limiting the foregoing and by way of example and not by way of limitation, some of the statements in the following referenced sections of this discussion and analysis are forward-looking and are, therefore, subject to such risks and uncertainties:

1. Management's discussion of the interest yield curve included under "Net Interest Income".
2. Management's discussion relating to the determination and assessment of the provision and allowance for loan losses included under "Provision for Loan Losses and the Allowance for Loan Losses".
3. Management's discussion of capital requirements included under "Stockholders' Equity".
4. Management's discussion relating to the Bank's liquidity included under "Liquidity".
5. Management's discussion of interest rate risk exposure included under "Interest Rate Risk".

Croghan does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements, except to the extent required by law.

PERFORMANCE SUMMARY

Croghan's net income for the year ended December 31, 2007 increased to \$5,511,000, compared to net income of \$5,489,000 earned in 2006 and \$5,721,000 in 2005. Net income in 2007 as compared to 2006 was favorably impacted by a \$451,000 increase in non-interest income and a \$280,000 decrease in the provision for loan losses, while being adversely impacted by a \$63,000 decrease in interest income and a \$587,000 increase in non-interest expenses.

The return on average assets in 2007 was 1.23%, compared to 1.21% in 2006 and 1.24% in 2005. The return on average stockholders' equity was 10.60% in 2007, 10.90% in 2006 and 11.43% in 2005. Net income per share in 2007 amounted to \$3.13, compared to \$3.03 in 2006 and \$3.05 in 2005.

Total assets decreased to \$455,128,000 at December 31, 2007, compared to \$458,858,000 at December 31, 2006 primarily due to a \$10,434,000, or 16.9%, decrease in total securities. Total loans decreased \$6,764,000, or 1.9%, to \$350,514,000 at December 31, 2007, compared to \$357,278,000 at December 31, 2006. Total deposits at December 31, 2007 decreased \$8,361,000, or 2.3%, to \$362,833,000 from \$371,194,000 at December 31, 2006. Total stockholders' equity at December 31, 2007 amounted to \$53,288,000, a 4.2% increase as compared to \$51,163,000 at December 31, 2006.

NET INTEREST INCOME

Net interest income, which represents the revenue generated from interest-earning assets in excess of the interest cost of funding those assets, is Croghan's principal source of income. Net interest income is influenced by market interest rate conditions and the volume and mix of interest-earning assets and interest-bearing liabilities. Many external factors affect net interest income and typically include the strength of customer loan demand, customer preference for individual deposit account products, competitors' loan and deposit product offerings, the national and local economic climates, and Federal Reserve monetary policy.

The following table demonstrates the components of net interest income for the years ended December 31:

	2007	2006	2005
	(Dollars in thousands)		
Average interest-earning assets	\$403,474	\$412,991	\$420,371
Interest income	27,752	26,904	25,385
Average rate earned	6.88%	6.51%	6.04%
Average interest-bearing liabilities	\$345,289	\$351,974	\$360,172
Interest expense	10,524	9,613	7,310
Average rate paid	3.05%	2.73%	2.03%
Net interest income	\$ 17,228	\$ 17,291	\$ 18,075
Net interest yield (net interest income divided by average interest-earning assets)	4.27%	4.19%	4.30%

2007 vs. 2006. Net interest income for 2007 decreased \$63,000, or .4%, to \$17,228,000, compared to \$17,291,000 in 2006. Average interest-earning assets in 2007 decreased \$9,517,000, which was a direct result of the reduction in the securities portfolio. Average interest-bearing liabilities decreased \$6,685,000, which was a direct result of decreases in time deposit balances. In 2007, Croghan used funds from securities that matured and other borrowings to fund the reduction in interest-bearing liabilities that were lost in the time deposit category.

In the last six months of 2007, the Federal Reserve Open Market Committee (FOMC) lowered managed interest rates 100 basis points, or 1.00%. Despite the reductions in managed rates, the average rate earned on both assets and liabilities increased in 2007. The average rate earned on interest-bearing assets increased to 6.88% in 2007 from 6.51% in 2006. The average rate paid on interest-bearing liabilities increased to 3.05% in 2007 from 2.73% in 2006. The decline in managed rates was not matched by the competitive market rates which allowed for a return to a positive sloped Treasury yield curve. A result of the positive sloped Treasury yield curve was that it allowed interest-bearing assets to increase more than interest-bearing liabilities. As a result, Croghan's net interest yield increased to 4.27% in 2007 from 4.19% in 2006.

2006 vs. 2005. Net interest income for 2006 decreased \$784,000, or 4.3%, to \$17,291,000, compared to \$18,075,000 in 2005. Average interest-earning assets in 2006 decreased \$7,380,000, which was a direct result of the reduction in the securities portfolio. Average interest-bearing liabilities decreased \$8,198,000, which was a direct result of decreases in other borrowed funds from sources such as the Federal Home Loan Bank of Cincinnati (FHLB). In 2006, Croghan used funds from securities that matured to pay down borrowed funds from the FHLB which were maturing in 2006.

In the first six months of 2006, FOMC raised managed interest rates 100 basis points, or 1.00%. These rate increases helped increase Croghan's interest yield on assets to 6.51%, but also increased the average rate paid on interest bearing liabilities to 2.73%. Also, throughout 2006 the Treasury yield curve remained inverted which put sustained pressure on Croghan's net interest yield. The net effect of the FOMC rate increases and inverted yield curve was to decrease the net interest yield in 2006 to 4.19%, compared to 4.30% in 2005.

PROVISION FOR LOAN LOSSES AND THE ALLOWANCE FOR LOAN LOSSES

Croghan's loan policy provides guidelines for managing both credit risk and asset quality. The policy details acceptable lending practices, establishes loan-grading classifications, and prescribes the use of a loan review process. Croghan employs credit analysis staff to aid in facilitating the early identification of problem loans, to help ensure sound credit decisions, and to assist in the determination of the allowance for loan losses. Croghan also engages an outside credit review firm to supplement the credit analysis function and to provide an independent assessment of the loan review process. Croghan's loan policy, loan review process, and credit analysis staff facilitate management's evaluation of the credit risk inherent in the lending function.

Croghan performs ongoing reviews to identify potential problem and non-performing loans and also completes in-depth analysis with respect to the quarterly allowance for loan losses calculation. Part of this analysis involves accessing the need for specific reserves relative to impaired loans. This evaluation typically includes a review of the loans past performance history, a comparison of the estimated collateral value in relation to the outstanding loan balance, the overall financial strength of the borrower, industry risks pertinent to the borrower, and competitive trends that may influence the borrower's future financial performance. Loans are considered impaired when, based upon the most current information available; it appears probable that the borrower will not be able to make payments according to the contractual terms of the loan agreement. Impaired loans are recorded at the observable market price of the loan, the fair value of the underlying collateral (if the loan is collateral dependent), or the present value of the expected future cash flows discounted at the loan's effective interest rate. Given that Croghan's impaired loans are typically collateralized by real estate or other borrower assets, the fair value of individual impaired loans is most often based upon the underlying collateral value. Large groups of smaller balance homogenous loans are collectively evaluated for impairment.

To determine the allowance for loan losses, Croghan prepares a detailed quarterly analysis that focuses on delinquency trends, the status of non-performing loans (i.e., impaired, nonaccrual, and restructured loans, and loans past due 90 days or more), current and historical trends of charged-off loans within each loan category (i.e., commercial, real estate, and consumer), existing local and national economic conditions, and changes within the volume and mix in each loan category. Higher loss rates are applied in calculating the allowance for loan losses relating to potential problem loans. The loss rates are periodically evaluated considering historic loss rates in the respective potential problem loan categories (i.e., special mention, substandard, doubtful) and current trends.

Regular provisions are made in amounts sufficient to maintain the balance in the allowance for loan losses at a level considered by management to be adequate for losses within the portfolio. Even though management uses all available information to assess possible loan losses, future additions or reductions to the allowance may be required as changes occur in economic conditions and specific borrower circumstances. The regulatory agencies that periodically review Croghan's allowance for loan losses may also require additions to the allowance or the charge-off of specific loans based upon the information available to them at the time of their examinations.

The following table provides factors relating to the provision and allowance for loan losses for the years ended December 31:

	2007	2006	2005
	(Dollars in thousands)		
Provision for loan losses charged to expense	\$ 100	\$ 380	\$ 705
Net loan charge-offs	342	404	753
Net loan charge-offs as a percent of average outstanding net loans	.10%	.12%	.22%

The following table provides information relating to problem loans and the allowance for loan losses as of December 31:

	2007	2006	2005
	(Dollars in thousands)		
Nonaccrual loans	\$ 2,285	\$ 3,795	\$ 3,872
Loans contractually past due 90 days or more and still accruing interest	237	716	561
Restructured loans	-	-	-
Potential problem loans, other than those past due 90 days or more, nonaccrual, or restructured	<u>9,405</u>	<u>8,199</u>	<u>11,810</u>
Total potential problem and non-performing loans	<u>\$11,927</u>	<u>\$12,710</u>	<u>\$16,243</u>
Allowance for loan losses	\$ 3,358	\$ 3,600	\$ 3,624
Allowance for loan losses as a percent of year-end loans	.96%	1.01%	1.06%

2007 vs. 2006. The 2007 provision for loan losses totaled \$100,000, or \$280,000 less than the 2006 provision of \$380,000. The reduction of the 2007 provision was impacted by a decrease in the level of loan charge-offs and nonaccrual loans. Total potential problem and non-performing loans decreased \$783,000, or 6.2% to \$11,927,000 at December 31, 2007, compared to \$12,710,000 at December 31, 2006.

Positive trends in the categories of potential problem and non-performing loans at December 31, 2007 as compared to December 31, 2006 include a \$1,510,000 decrease in nonaccrual loans and a \$479,000 decrease in loans contractually past due 90 days or more and still accruing interest. Croghan did experience an increase in other potential problem loans of \$1,206,000 at December 31, 2007 as compared to December 31, 2006. This increase was primarily due to the improvement and migration during the fourth quarter of 2007 from the nonaccrual loans category of the customer described in the "2006 vs. 2005" comparison that follows this section.

Croghan typically classifies a loan as a potential problem loan, regardless of its collateralization or any contractually obligated guarantors, when a review of the borrower's financial statements indicates that the borrower does not generate sufficient operating cash flow to adequately service its debts.

The following table provides additional detail pertaining to the past due status of Croghan's potential problem loans as of December 31, 2007 (dollars in thousands):

Potential problem loans not currently past due	\$4,888
Potential problem loans past due one day or more but less than 10 days	2,006
Potential problem loans past due 10 days or more but less than 30 days	1,215
Potential problem loans past due 30 days or more but less than 60 days	985
Potential problem loans past due 60 days or more but less than 90 days	<u>311</u>
Total potential problem loans	<u>\$9,405</u>

The following table provides additional detail pertaining to the collateralization of Croghan's potential problem loans as of December 31, 2007 (dollars in thousands):

Collateralized by an interest in real property	\$6,790
Collateralized by an interest in assets other than real property	2,590
Unsecured	<u>25</u>
Total potential problem loans	<u>\$9,405</u>

2006 vs. 2005. The 2006 provision for loan losses totaled \$380,000, or \$325,000 less than the 2005 provision of \$705,000. The reduction of the 2006 provision was impacted by a decrease in the level of charge-offs in the consumer, credit card, and real estate loan categories. The reduction of the 2006 provision was also impacted by a reduction in total potential problem and non-performing loans. Total potential problem and non-performing loans decreased \$3,533,000, or 21.8%, to \$12,710,000 at December 31, 2006, compared to \$16,243,000 at December 31, 2005.

Positive portfolio trends came from a \$3,611,000 decrease in potential problem loans to \$8,199,000 at December 31, 2006, compared to \$11,810,000 at December 31, 2005, and also a decrease in nonaccrual loans to \$3,795,000 at December 31, 2006 from \$3,872,000 at December 31, 2005. A negative portfolio trend was an increase in loans past due 90 days or more and still accruing interest to \$716,000 in 2006, compared to \$561,000 in 2005. Non-accrual loans included three loans to one borrower aggregating \$2,557,000 at December 31, 2006 and \$2,688,000 at December 31, 2005. During the third quarter of 2006, the borrower filed for protection under Chapter 11 of the bankruptcy laws and the Bank obtained an updated appraisal. Based on this updated appraisal, an additional provision of \$242,000 was recognized in 2006 relating to this credit.

The following table provides additional detail pertaining to the past due status of Croghan's potential problem loans as of December 31, 2006 (dollars in thousands):

Potential problem loans not currently past due	\$5,260
Potential problem loans past due one day or more but less than 10 days	843
Potential problem loans past due 10 days or more but less than 30 days	745
Potential problem loans past due 30 days or more but less than 60 days	1,175
Potential problem loans past due 60 days or more but less than 90 days	<u>176</u>
Total potential problem loans	<u>\$8,199</u>

The following table provides additional detail pertaining to the collateralization of Croghan's potential problem loans as of December 31, 2006 (dollars in thousands):

Collateralized by an interest in real property	\$6,679
Collateralized by an interest in assets other than real property	1,500
Unsecured	<u>20</u>
Total potential problem loans	<u>\$8,199</u>

NON-INTEREST INCOME

Non-interest income is comprised of the items summarized in the following table for the years ended December 31:

	2007	2006	2005
		(Dollars in thousands)	
Trust income	\$ 888	\$ 768	\$ 613
Service charges on deposit accounts	1,551	1,394	1,379
Gain (loss) on sale of securities	-	(9)	(141)
Increase in the cash value of life insurance	355	329	314
Commissions received from the origination of loans	9	13	15
Other operating income	<u>683</u>	<u>540</u>	<u>581</u>
Total non-interest income	<u>\$3,486</u>	<u>\$3,035</u>	<u>\$2,761</u>

2007 vs. 2006. Total non-interest income in 2007 increased to \$3,486,000, compared to \$3,035,000 in 2006, an increase of \$451,000 or 14.9%. Trust income increased \$120,000, or 15.6%, from the 2006 level. The Trust Department held a total of \$140,063,000 in assets for 612 clients at December 31, 2007, compared to \$134,022,000 in assets at December 31, 2006. Services offered by the Trust Department include qualified retirement plans (e.g., 401k and simple plans), personal trusts, investment management accounts, cash management accounts, individual retirement accounts, custody accounts, charitable trusts, and charitable gift annuities.

Service charges on deposit accounts increased \$157,000, or 11.3%, in 2007 as compared to 2006 as a result of Croghan's continued development of various deposit products and services, as well as close scrutiny of its fee structure in comparison to its costs.

Croghan has purchased split-dollar life insurance contracts on behalf of certain current and former executive officers. The increase in the cash value of these policies accumulates on a tax-exempt basis, as long as the policies are not cashed, and the tax savings is used to fund supplemental retirement benefits for the named executives, most of whom are retired from Croghan. Croghan has also purchased bank-owned life insurance policies covering certain members of its management. The total cash value of these life insurance policies aggregated \$10,227,000 at December 31, 2007 and \$9,872,000 at December 31, 2006. The increase in cash value of the policies amounted to \$355,000 in 2007, compared to \$329,000 in 2006.

Other operating income increased \$143,000, or 26.5%, to \$683,000 in 2007 from \$540,000 reported in 2006. Other operating income includes fees generated by the Investment Department of Croghan's Trust and Investment Services Division. The Investment Department markets non-FDIC insured investment products, such as mutual funds and annuities. Fees generated by the Investment Department totaled \$98,000 in 2007, compared to \$77,000 in 2006. Other items of note that comprise other operating income include ATM surcharge fees, MasterCard merchant referral commissions, safe deposit box fees, credit life insurance sales commissions, and fees from the sale of official checks and money orders.

2006 vs. 2005. Total non-interest income in 2006 increased to \$3,035,000, compared to \$2,761,000 earned in 2005, an increase of \$274,000 or 9.9%. Service charges on deposit accounts increased \$15,000, or 1.1%, from the 2005 level. Net securities losses amounted to \$9,000 in 2006, compared to \$141,000 in 2005. A portion of the 2005 sales were the result of a planned strategy to fund payments to Custar shareholders and to align the acquired securities portfolio with Croghan's investment objectives. The net securities losses in 2006 were realized upon the sale of obligations of states and political subdivisions. All of the securities sold were from the available-for-sale portfolio. Trust income increased \$155,000, or 25.3%, from the 2005 level. The Trust Department held a total of \$134,022,000 in assets for 615 clients at December 31, 2006, compared to \$114,157,000 in assets at December 31, 2005.

The cash value of the split-dollar life insurance and the bank-owned life insurance policies aggregated \$9,872,000 at December 31, 2006 and \$9,543,000 at December 31, 2005. The increase in cash value of the policies amounted to \$329,000 in 2006 and \$314,000 in 2005.

Other operating income decreased \$41,000, or 7.1%, to \$540,000 in 2006 from \$581,000 reported in 2005. As previously mentioned, the fees generated by the Investment Department of Croghan's Trust and Investment Services Division are included in non-interest income and totaled \$77,000 in 2006, compared to \$97,000 in 2005.

NON-INTEREST EXPENSES

Non-interest expenses are comprised of the items summarized in the following table for the years ended December 31:

	2007	2006 (Dollars in thousands)	2005
Compensation	\$ 5,663	\$ 5,497	\$ 5,340
Benefits	<u>1,523</u>	<u>1,390</u>	<u>1,513</u>
Total personnel	7,186	6,887	6,853
Occupancy of premises	837	765	760
Amortization of core deposit intangible asset	58	57	58
Equipment and vehicle	1,196	1,053	1,020
Professional and consulting services	437	358	451
State franchise and other taxes	496	473	349
Postage	294	287	275
Stationery and supplies	219	215	234
Advertising and marketing	179	233	223
Third party computer processing	241	228	222
Examination fees	182	151	169
MasterCard franchise and processing	155	153	147
Loan collection and repossession fees	72	114	132
ATM network and processing fees	184	163	131
Telephone	99	99	94
Other operating	<u>920</u>	<u>932</u>	<u>959</u>
Total non-interest expenses	<u>\$12,755</u>	<u>\$12,168</u>	<u>\$12,077</u>

2007 vs. 2006. Total non-interest expenses in 2007 increased to \$12,755,000 from \$12,168,000 in 2006, an increase of \$587,000 or 4.8%. Total personnel expense increased \$299,000 or 4.3%, to \$7,186,000 in 2007 from \$6,887,000 in 2006. During 2007, management received an updated analysis of the Corporation's obligation under the supplemental retirement plan for executive officers. Based on the results of the analysis, which is prepared periodically by the Corporation's outside benefit consultants, no provision was deemed necessary for the year ended December 31, 2007. Full-time equivalent employees totaled 152 at 2007 year-end compared to 156 at 2006 year-end. Other expenses that changed more than \$50,000 between 2007 and 2006 included occupancy of premises, equipment and vehicle, professional and consulting services, and advertising and marketing.

Occupancy of premises expense increased \$72,000 or 9.4% in 2007. The 2007 increase was primarily due to the costs incurred from the opening of the new Clyde banking center and improvements at the Main banking center in 2007. Equipment and vehicle expenses increased 13.6% in 2007. Increases in equipment costs were also primarily due to additional equipment purchased for the new Clyde and Main banking centers.

Professional and consulting services increased \$79,000, or 22.1%, in 2007. These services include fees paid to various consulting firms that assist with operational and product issues, asset/liability management, compliance training, information technology matters, and business planning. They also include professional fees paid to legal, accounting, and loan review firms. The 2007 total included \$117,000 in expenses for an accounting firm to assist in the internal control certification requirements specified by Section 404 of the Sarbanes-Oxley Act (SOX 404), which were not required in 2006.

Advertising and marketing expenses decreased \$54,000 or 23.2% in 2007. In 2007, Croghan shifted away from mass marketing media such as billboards, newspapers and televisions to targeted direct client marketing which resulted in reduced advertising and marketing costs.

2006 vs. 2005. Total non-interest expenses in 2006 increased to \$12,168,000 from \$12,077,000 in 2005, an increase of \$91,000 or .8%. Total personnel expense increased \$34,000 to \$6,887,000 in 2006 from \$6,853,000 in 2005. During 2006, management received an updated analysis of the Corporation's obligation under the supplemental retirement plan for executive officers. Based on the results of the analysis, the Corporation reduced its liability under the plan by \$83,000 for the year ending December 31, 2006. The reduction was due to the resignation of an executive officer earlier in the year and adjustments of certain experience factors, including a decrease in anticipated future payments due to retired participants. Full-time equivalent employees totaled 156 at 2006 year-end compared to 158 at 2005 year-end. Other expenses that changed more than \$50,000 between 2006 and 2005 included professional and consulting services, and state franchise and other taxes.

Professional and consulting services decreased \$93,000, or 20.6%, in 2006. The 2005 total included \$45,000 in expenses for an accounting firm to assist in the internal control certification requirements specified by SOX 404, which were not incurred in 2006. After Croghan completed a majority of the work in 2005, the regulatory agencies announced in late 2005 that certifications applicable to public registrants of Croghan's size would be delayed until 2007 or later.

State franchise taxes, which are based on the Bank's capital structure, and other taxes increased \$124,000, or 35.5%, in 2006. The 2006 increase was largely due to The Custar State Bank acquisition completed in January 2005.

FEDERAL INCOME TAXES

Federal income tax expense totaled \$2,348,000 in 2007, compared to \$2,289,000 in 2006 and \$2,333,000 in 2005. The effective tax rate in 2007 was 29.9% compared to 29.4% in 2006 and 29.0% in 2005.

SECURITIES

Croghan's securities portfolio is used to enhance net interest income, provide liquidity in the event of unforeseen cash flow needs, and diversify financial risk. At December 31, 2007, Croghan classified substantially all of its securities, except restricted stock, as available-for-sale. Available-for-sale securities are reported at their fair values with the net unrealized gain or loss, net of tax, reported as a component of stockholder equity known as "accumulated other comprehensive income (loss)." Any restricted stock is reported at cost. All securities are periodically reviewed for impairment.

Croghan's available-for-sale investment portfolio is comprised primarily of U.S. Government agency and political subdivision obligations. The fair value of these holdings totaled \$46,994,000 at December 31, 2007, compared to \$56,923,000 at December 31, 2006. Croghan's held-to-maturity investment portfolio consists of debt obligations of domestic corporations. The amortized cost of these investments totaled \$506,000 at December 31, 2007, compared to \$1,011,000 at December 31, 2006. Restricted stock is primarily comprised of shares issued by the Federal Reserve Bank of Cleveland, Federal Home Loan Bank of Cincinnati and Bankers Bancshares, Inc. of Gahanna. The carrying value of restricted stock totaled \$3,629,000 at December 31, 2007 and 2006.

The aggregate carrying value of all securities at December 31, 2007 totaled \$51,479,000, which represented a decrease of 16.9%, as compared to \$61,913,000 at December 31, 2006. Throughout 2007, Croghan used proceeds from securities maturities to replace funds lost in time deposits rather than purchase new securities.

LOANS

Total loans at December 31, 2007 decreased \$6,764,000, or 1.9%, over December 31, 2006. The following table summarizes total loans and the percent change by major category as of December 31:

	2007 (Dollars in thousands)	2006	Percent Change
Commercial, financial and agricultural	\$ 38,057	\$ 42,846	(11.2)%
Real estate – residential mortgage	146,664	151,330	(3.1)%
Real estate – non-residential mortgage	135,743	125,755	7.9 %
Real estate – construction	11,427	13,467	(15.1)%
Consumer	15,838	21,111	(25.0)%
Credit card	2,785	2,769	.6 %
Total loans	<u>\$350,514</u>	<u>\$357,278</u>	(1.9)%

During 2007, continued rigorous underwriting standards, along with low economic growth throughout Croghan's market area, resulted in a decline of \$6,764,000, or 1.9%, in total loans to \$350,514,000 at December 31, 2007, from \$357,278,000 at December 31, 2006. As demonstrated in the preceding table, decreases occurred in all loan categories except for credit card and non-residential real estate. The credit card increase was a very modest \$16,000, while the increase in non-residential mortgage loans was part of Croghan's continued emphasis on obtaining real estate collateral for commercial loans. The most significant decreases during 2007 occurred in commercial, financial and agricultural of \$4,789,000, or 11.2%, consumer of \$5,273,000, or 25.0%, and real estate – construction of \$2,040,000, or 15.1%. The decrease in the commercial, financial and agricultural category is largely due to a shift to the real estate – non-residential mortgage category. The level of consumer lending has continued to decline over the past several years due to both economic and competitive factors. The level of construction lending may vary from time to time, but on the national level, construction activity was down during 2007.

DEPOSITS AND OTHER INTEREST-BEARING LIABILITIES

Deposits and other interest-bearing liabilities at December 31, 2007 decreased \$5,743,000, or 1.4%, compared to December 31, 2006. Deposits and other interest-bearing liabilities serve as a primary source of cash flows to fund loan demand and are summarized in the following table as of December 31:

	2007	2006	Percent Change
	(Dollars in thousands)		
Demand, non-interest bearing	\$ 52,957	\$ 49,745	6.5 %
Savings, NOW and Money Market deposits	160,431	160,224	.1 %
Time deposits	<u>149,445</u>	<u>161,225</u>	(7.3)%
Total deposits	362,833	371,194	(2.3)%
Federal funds purchased and securities sold under repurchase agreements	11,106	15,388	(27.8)%
Other borrowings	<u>24,500</u>	<u>17,600</u>	39.2 %
Total deposits and other interest-bearing liabilities	<u>\$398,439</u>	<u>\$404,182</u>	(1.4)%

As noted in the preceding table, other borrowings; demand, non-interest bearing; and savings, NOW and money market deposits all increased in 2007. Other borrowings increased \$6,900,000, or 39.2%, in 2007 when compared to 2006. The increase in other borrowings primarily resulted from \$10,000,000 of Federal Home Loan Bank advances initiated during the fourth quarter of 2007 to take advantage of the relatively low interest rate environment at the time. Other borrowings at December 31, 2006 also included \$1,600,000 of term loan borrowings related to Croghan's 2005 acquisition of The Custar State Bank. Such borrowings were repaid during 2007. The increase in demand, non-interest bearing deposits of \$3,212,000, or 6.5%, and decrease in securities helped fund the net outflow of both time deposits of \$11,780,000, or 7.3%, and federal funds purchased and securities sold under repurchase agreements of \$4,282,000, or 27.8%, that occurred during 2007. The shift from time deposits to other borrowings came about as the costs for other borrowings were below the time deposit costs being offered in our market areas. This has allowed Croghan to keep down the increasing costs of interest-bearing liabilities which has contributed to the increase in the net yield on interest-earning assets as previously discussed.

STOCKHOLDERS' EQUITY

Croghan's stockholders' equity is summarized in the following table at December 31:

	2007	2006
	(Dollars in thousands)	
Common stock	\$23,926	\$23,926
Surplus	179	171
Retained earnings	35,292	31,961
Accumulated other comprehensive income (loss)	157	(206)
Treasury stock	<u>(6,266)</u>	<u>(4,689)</u>
Total stockholders' equity	<u>\$53,288</u>	<u>\$51,163</u>

Accumulated other comprehensive income (loss) consists of the net unrealized gain or loss on securities classified as available-for-sale. At December 31, 2007, Croghan held \$47,344,000 of available-for-sale securities with a net unrealized gain of \$157,000, net of income taxes. This compares to available-for-sale securities of \$57,273,000, at December 31, 2007, with a net unrealized loss of \$206,000, net of income taxes. The \$363,000 change in accumulated other comprehensive income (loss) was the result of customary and expected fluctuations in the bond market related to changes in interest rates during 2007. Since management believes that none of its investment securities holdings are permanently impaired, there were no impairment charges made to operations in either 2007 or 2006.

Treasury stock at December 31, 2007 increased \$1,577,000 or 33.6% as compared to December 31, 2006. During 2007, Croghan repurchased 41,051 of its outstanding shares, all of which are maintained in treasury stock at December 31, 2007. Croghan also sold 763 shares from treasury during 2007 to meet the contribution requirements of the Croghan-sponsored 401(k) plan. All sales of treasury shares during 2007 were made at the prevailing market price on the date of the trade and resulted in an \$8,000 increase in surplus.

Bank holding companies, including Croghan, are subject to minimum capital requirements established by the Federal Reserve Board. Additionally, all insured depository institutions, including the Bank, are subject to the Federal Reserve Board's capital classification system that assigns institutions into one of the following categories: well capitalized, adequately capitalized, or undercapitalized. Failure of a bank or bank holding company to meet the adequately capitalized or minimum capital standards may result in the initiation of certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material adverse effect on an institution's financial statements.

The Federal Reserve Board's minimum Tier I risk-based and total risk-based capital ratios established for bank holding companies are 4% and 8%, respectively. At December 31, 2007, Croghan had a Tier I risk-based capital ratio of 12.6% and a total risk-based capital ratio of 13.6%. To be considered as "well capitalized" under prompt corrective action provisions, a bank must have a Tier I risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10%. At December 31, 2007, Bank was deemed "well capitalized" with a Tier I risk-based capital ratio of 11.0% and a total risk-based capital ratio of 13.5%. A detailed analysis of the capital amounts and related capital ratios for Croghan and the Bank is included in Note 15 to the Consolidated Financial Statements. Management believes that, as of December 31, 2007 and 2006, Croghan and the Bank met all applicable capital adequacy requirements.

LIQUIDITY

The Bank's primary sources of liquidity are derived from its core deposit base and stable stockholders' equity position. Secondary liquidity is provided by adjusting the daily federal funds sold position (when available), by actively managing the investment portfolio, and by adjusting federal funds purchased (borrowed) under established lines of credit from correspondent banks. The Bank has four federal funds purchased lines of credit, which are readily available on an unsecured short-term basis to meet daily liquidity needs as they arise. The average balance borrowed under these lines during 2007 totaled \$613,000. At December 31, 2007, the Bank had no federal funds purchased compared to \$4,500,000 in federal funds purchased at December 31, 2006. The Bank also has additional borrowing capacity of \$63,702,000 available from the Federal Home Loan Bank of Cincinnati. These funds can be drawn upon subject to adequate pledging of Federal Home Loan Bank stock and eligible residential mortgage loans.

Additionally, the Bank maintains a portion of its assets in liquid form to meet anticipated customer loan demands and to fund possible deposit account outflows. At December 31, 2007, liquid assets in the form of cash and due from banks totaled \$25,349,000, or 5.6%, of total assets. This amount included \$11,277,000 of federal funds sold and interest-bearing deposits in other banks. The Bank believes that these highly liquid assets, as well as a staggered maturity schedule for other borrowings, principal repayments within the investment portfolio, and cash flows from loan repayments provide adequate liquidity for day-to-day operations.

The liquidity needs of the Corporation, primarily the need to pay quarterly cash dividends to stockholders, are funded by upstream-dividends from the Bank. Dividends accrued to the holding company from the Bank totaled \$5,378,000 in 2007, \$5,472,000 in 2006 and \$5,608,000 in 2005. The ability of the Bank to pay dividends is subject to limitations under various laws and regulations and to prudent and sound banking practices. In general, subject to certain minimum capital requirements, the Bank may declare a dividend at any time without the approval from the State of Ohio Division of Financial Institutions provided its dividends in a calendar year do not exceed the total of its net profits for that year combined with its retained profits for the two preceding years. Under these provisions, the Bank had \$202,000 available for dividends on January 1, 2008 and projects adequate income throughout 2008 to support cash dividends to shareholders and provide funds to make debt service payments.

INTEREST RATE RISK

Interest rate risk is one of Croghan's most significant financial exposures. This risk, which is common to the financial institution sector, is an integral part of Croghan's operations and impacts the rate-pricing strategy for essentially all loan and deposit products. The management and oversight of interest rate risk, including the establishment of acceptable guidelines, is the responsibility of the Asset/Liability Management Committee (ALCO). The ALCO committee, and the associated Asset/Liability Management Policy, seek to quantify and monitor the risk, to adequately provide for liquidity needs, and to maximize net interest income by managing net interest yield.

Croghan monitors its interest rate risk through a sensitivity analysis, which strives to measure potential changes in future earnings and the fair values of its financial instruments that could result from hypothetical changes in interest rates. The first step in this analysis is to estimate the expected cash flows from Croghan's financial instruments using the interest rates in effect at December 31, 2007. To arrive at fair value estimates, the cash flows from Croghan's financial instruments are discounted to their approximated present values.

Hypothetical changes in interest rates are applied to those financial instruments, and the cash flows and fair value estimations are then simulated. When calculating the net interest income estimations, hypothetical rates are applied to the financial instruments based upon the assumed cash flows. Croghan applies interest rate "shocks" to its financial instruments of 100 and 200 basis points (up and down) for its net interest income, and 200 basis points (up and down) for the value of its equity. The following table presents the potential sensitivity in Croghan's annual net interest income for a 100 and 200 basis-point (i.e., 1.0% and 2.0%) change in market interest rates and the potential sensitivity in the present value of Croghan's equity for a sudden and sustained 200 basis-point (i.e., 2.0%) change in market interest rates (dollars in thousands):

	December 31, 2007		ALCO Guidelines For the Change in Percent (%)
	Change in Dollars (\$)	Change in Percent (%)	
Annual Net Interest Income Impact			
For a Change of + 100 Basis Points	(1,098)	(6.4)	(15.0)
For a Change of – 100 Basis Points	204	1.2	15.0
For a Change of + 200 Basis Points	(2,213)	(12.9)	(25.0)
For a Change of – 200 Basis Points	(390)	(2.3)	25.0
Impact on the Net Present Value of Equity			
For a Change of + 200 Basis Points	(4,193)	(6.9)	(25.0)
For a Change of – 200 Basis Points	(959)	(1.6)	25.0

As indicated in the preceding table, the projected volatility of net interest income and the net present value of equity at December 31, 2007 were within Croghan's established guidelines. The preceding analysis encompasses the use of a variety of assumptions, including the relative levels of market interest rates, loan prepayments, and the possible reaction of depositors to changes in interest rates. The analysis simulates possible outcomes and should not be relied upon as being indicative of actual results. Additionally, the analysis does not necessarily contemplate all of the actions that Croghan could undertake in response to changes in market interest rates.

OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS, AND CONTINGENT LIABILITIES AND COMMITMENTS

The following table summarizes Croghan's loan commitments, including letters of credit, as of December 31, 2007 (dollars in thousands):

Type of Commitment	Total Amount	Amount of Commitment to Expire Per Period			
		Less Than 1 Year	1-3 Years	4-5 Years	Over 5 Years
Commercial lines of credit	\$26,524	\$22,718	\$3,653	\$ 54	\$ 99
Real estate lines of credit	31,217	5,087	3,391	572	22,167
Consumer lines of credit	777	777	-	-	-
Credit card lines of credit	11,216	11,216	-	-	-
Guarantees	-	-	-	-	-
Total Commitments	<u>\$69,734</u>	<u>\$39,798</u>	<u>\$7,044</u>	<u>\$ 626</u>	<u>\$22,266</u>

As indicated in the preceding table, Croghan had \$69,734,000 in total loan commitments at the December 31, 2007, including \$39,798,000 expiring within one year. All lines of credit represent either fee-paid or legally binding loan commitments for the loan categories noted. Letters of credit are also included in the amounts noted in the table since Croghan requires that each letter of credit be supported by a loan agreement. Commercial and consumer lines represent both unsecured and secured obligations. Real estate lines are secured by mortgages in residential and non-residential property. Credit card lines are made on an unsecured basis. It is anticipated that a significant portion of these lines will expire without being drawn upon, particularly credit card lines, which represent the maximum amount available to all cardholders. Additionally, \$23,078,000 of the commercial lines are due on demand, with many of those lines established for seasonal operating purposes.

The following table summarizes Croghan's other contractual obligations as of December 31, 2007 (dollars in thousands):

Contractual Obligations	Total Amount	Payments Due by Period			
		Less Than 1 Year	1-3 Years	4-5 Years	Over 5 Years
Long-term debt	\$24,500	\$ -	\$14,000	\$5,500	\$5,000
Capital leases	-	-	-	-	-
Operating leases	209	89	98	22	-
Unconditional purchase obligations	-	-	-	-	-
Other	<u>802</u>	<u>49</u>	<u>102</u>	<u>110</u>	<u>541</u>
Total Obligations	<u>\$25,511</u>	<u>\$ 138</u>	<u>\$14,200</u>	<u>\$5,632</u>	<u>\$5,541</u>

Long-term debt noted in the preceding table represents borrowings from the Federal Home Loan Bank of Cincinnati which requires payment of interest on a monthly basis with principal due at maturity. The obligations are all at fixed interest rates and stipulate a prepayment penalty if the respective note's interest rate exceeds the current market rate for similar borrowings at the time of prepayment. As notes mature, Croghan evaluates the liquidity and interest-rate circumstances at that point in time to determine whether to pay off or renew the notes. The evaluation process typically includes: the strength of current and projected customer loan demand, Croghan's federal funds sold or purchased position, projected cash flows from maturing investment securities, the current and projected market interest rate environment, local and national economic conditions, and customer demand for Croghan's deposit product offerings.

As indicated in the table, Croghan had no capital leases or unconditional purchase obligations as of December 31, 2007. Additionally, the table does not include obligations pertaining to deposits or federal funds purchased and securities sold under repurchase agreements.

Croghan's operating lease obligations pertain to lease arrangements for the Port Clinton Office, which is located in a retail supermarket in the Knollcrest Shopping Center, an ATM site north of Fremont, and the Norwalk banking center located in the downtown business district. The other contractual obligation noted in the table, totaling \$802,000, represents the projected payments for the periods indicated to participants in the Bank's executive supplemental retirement plan. Of this amount, \$496,000 has been accrued as a liability as of December 31, 2007. Croghan also has various future operating lease obligations aggregating less than \$75,000 at December 31, 2007 for photocopying and mail processing equipment which are not included in the table.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

Croghan adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" (FIN 48) on January 1, 2007. There was no impact as a result of the adoption of FIN 48 as Croghan has no material uncertain tax positions that would require recognition under FIN 48.

A summary of other recently issued accounting pronouncements which have not yet been implemented but that may impact the consolidated financial statements of Croghan in the future are summarized in Note 20 to the Consolidated Financial Statements.

SIGNIFICANT ACCOUNTING POLICIES

Croghan's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and follow general practices for the commercial banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements. These estimates, assumptions, and judgments are based upon the information available as of the date of the financial statements.

The most significant accounting policies followed by Croghan are presented in the Summary of Significant Accounting Policies. These policies, along with the other disclosures presented in the Notes to Consolidated Financial Statements and in Management's Discussion and Analysis, provide information about how significant assets and liabilities are valued in the financial statements and how those values are determined. Management has identified the determination of the allowance for loan losses and the estimated liability for supplemental retirement benefits as the accounting areas that require the most subjective and complex estimates, assumptions, and judgments and, as such, could be the most subject to revision in the near term as new information becomes available. Additionally, management has identified the determination of the value of goodwill as another accounting area that requires complex estimates, assumptions, and judgments.

As noted in the section entitled "Provision for Loan Losses and the Allowance for Loan Losses", Croghan performs a detailed quarterly analysis to assess the adequacy of its allowance for loan losses. This analysis encompasses a variety of factors including the potential loss exposure for individually reviewed loans, the historical loss experience for each loan category (i.e., commercial, real estate, and consumer), the volume of non-performing loans (i.e., loans in nonaccrual status or past due 90 days or more), the volume of loans past due 30 to 89 days, a segmentation of each loan category by internally-assigned risk grades, any significant changes in lending or loan review staff, an evaluation of current and future local and national economic conditions, any significant changes in the volume or mix of loans within each category, a review of the significant concentrations of credit, and any legal, competitive, or regulatory concerns.

The estimated liability for supplemental retirement benefits is computed annually by an outside consulting firm. This estimate uses assumptions relating to market interest rates and the life expectancies of the participants that are subject to change over time.

A goodwill evaluation is performed as of July 1 of each year. The evaluation process provides data to substantiate the balance in goodwill by estimating Croghan's implied market value based upon recent bank merger and acquisition transactions. If the results indicate that Croghan's estimated implied value is greater than its total stockholder's equity plus goodwill as of the evaluation date, then no impairment exists. To date, none of Croghan's goodwill evaluations have revealed the need for an impairment charge.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Croghan Bancshares, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with U.S. generally accepted accounting principles. Internal control over financial reporting of Croghan Bancshares, Inc. and its subsidiary (the "Corporation") includes those policies and procedures that:


- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Corporation;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the financial statements.

With the supervision and participation of our President and Chief Executive Officer and our Treasurer, management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth for effective internal control over financial reporting as described in the "Internal Control Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Corporation's system of internal control over financial reporting is effective as of December 31, 2007.

This Annual Report does not include an attestation report of the Corporation's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Corporation's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Corporation to provide only management's report in this Annual Report.



Steven C. Futrell
President and Chief Executive Officer



Kendall W. Rieman
Treasurer

February 13, 2008

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Croghan Bancshares, Inc.
Fremont, Ohio

We have audited the accompanying consolidated balance sheets of Croghan Bancshares, Inc. and its subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Croghan Bancshares, Inc. and its subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Clifton Gunderson LLP

Toledo, Ohio
March 11, 2008

CROGHAN BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

ASSETS	December 31,	
	2007	2006
(Dollars in thousands, except par value)		
CASH AND CASH EQUIVALENTS	\$ 25,349	\$ 11,843
SECURITIES		
Available-for-sale, at fair value	47,344	57,273
Held-to-maturity, at amortized cost, fair value of \$534 in 2007 and \$1,027 in 2006	506	1,011
Restricted stock	<u>3,629</u>	<u>3,629</u>
Total securities	<u>51,479</u>	<u>61,913</u>
LOANS	350,514	357,278
Less: Allowance for loan losses	<u>3,358</u>	<u>3,600</u>
Net loans	<u>347,156</u>	<u>353,678</u>
PREMISES AND EQUIPMENT, NET	7,653	7,904
CASH SURRENDER VALUE OF LIFE INSURANCE	10,227	9,872
GOODWILL	10,430	10,430
CORE DEPOSIT INTANGIBLE ASSET, NET	288	346
ACCRUED INTEREST RECEIVABLE	1,916	2,271
OTHER ASSETS	<u>630</u>	<u>601</u>
TOTAL ASSETS	<u>\$455,128</u>	<u>\$458,858</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand, non-interest bearing	\$ 52,957	\$ 49,745
Savings, NOW and Money Market deposits	160,431	160,224
Time	<u>149,445</u>	<u>161,225</u>
Total deposits	362,833	371,194
Federal funds purchased and securities sold under repurchase agreements	11,106	15,388
Borrowed funds	24,500	17,600
Dividends payable	541	536
Other liabilities	<u>2,860</u>	<u>2,977</u>
Total liabilities	<u>401,840</u>	<u>407,695</u>
STOCKHOLDERS' EQUITY		
Common shares, \$12.50 par value. Authorized 6,000,000 shares; issued 1,914,109 shares	23,926	23,926
Surplus	179	171
Retained earnings	35,292	31,961
Accumulated other comprehensive income (loss)	157	(206)
Treasury stock, 168,691 shares in 2007 and 128,403 shares in 2006, at cost	<u>(6,266)</u>	<u>(4,689)</u>
Total stockholders' equity	<u>53,288</u>	<u>51,163</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$455,128</u>	<u>\$458,853</u>

The accompanying notes are an integral part of the consolidated financial statements.

CROGHAN BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31,		
	2007	2006	2005
	(Dollars in thousands, except per share data)		
INTEREST INCOME			
Loans, including fees	\$25,168	\$23,926	\$22,410
Securities:			
Obligations of U.S. Government agencies and corporations	1,327	1,742	1,652
Obligations of states and political subdivisions	763	891	927
Other	271	252	246
Federal funds sold	<u>223</u>	<u>93</u>	<u>150</u>
Total interest income	<u>27,752</u>	<u>26,904</u>	<u>25,385</u>
INTEREST EXPENSE			
Deposits	9,324	8,259	5,987
Other borrowings	<u>1,200</u>	<u>1,354</u>	<u>1,323</u>
Total interest expense	<u>10,524</u>	<u>9,613</u>	<u>7,310</u>
Net interest income	17,228	17,291	18,075
PROVISION FOR LOAN LOSSES	<u>100</u>	<u>380</u>	<u>705</u>
Net interest income, after provision for loan losses	<u>17,128</u>	<u>16,911</u>	<u>17,370</u>
NON-INTEREST INCOME			
Trust income	888	768	613
Service charges on deposit accounts	1,551	1,394	1,379
Loss on sale of securities	-	(9)	(141)
Other	<u>1,047</u>	<u>882</u>	<u>910</u>
Total non-interest income	<u>3,486</u>	<u>3,035</u>	<u>2,761</u>
NON-INTEREST EXPENSES			
Salaries, wages and employee benefits	7,186	6,887	6,853
Occupancy of premises	837	765	760
Amortization of core deposit intangible asset	58	57	58
Other operating	<u>4,674</u>	<u>4,459</u>	<u>4,406</u>
Total non-interest expenses	<u>12,755</u>	<u>12,168</u>	<u>12,077</u>
Income before federal income taxes	7,859	7,778	8,054
FEDERAL INCOME TAXES	<u>2,348</u>	<u>2,289</u>	<u>2,333</u>
NET INCOME	<u>\$ 5,511</u>	<u>\$ 5,489</u>	<u>\$ 5,721</u>
NET INCOME PER SHARE , based on 1,763,320 shares in 2007, 1,814,011 shares in 2006 and 1,877,987 shares in 2005	<u>\$ 3.13</u>	<u>\$ 3.03</u>	<u>\$ 3.05</u>

The accompanying notes are an integral part of the consolidated financial statements.

CROGHAN BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2007, 2006 and 2005

	Common Stock	Surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
	(Dollars in thousands, except per share data)					
BALANCE AT DECEMBER 31, 2004	\$23,926	\$ 133	\$25,091	\$ 375	\$ (609)	<u>\$48,916</u>
Comprehensive income:						
Net income	-	-	5,721	-	-	5,721
Change in net unrealized gain (loss), net of reclassification adjustments and related income taxes	-	-	-	(662)	-	<u>(662)</u>
Total comprehensive income	-	-	-	-	-	<u>5,059</u>
Purchase of 51,472 treasury shares	-	-	-	-	(1,943)	(1,943)
Proceeds from sale of 1,925 treasury shares	-	21	-	-	50	71
Cash dividends declared, \$1.16 per share	-	-	<u>(2,172)</u>	-	-	<u>(2,172)</u>
BALANCE AT DECEMBER 31, 2005	23,926	154	28,640	(287)	(2,502)	<u>49,931</u>
Comprehensive income:						
Net income	-	-	5,489	-	-	5,489
Change in net unrealized loss, net of reclassification adjustments and related income taxes	-	-	-	81	-	<u>81</u>
Total comprehensive income	-	-	-	-	-	<u>5,570</u>
Purchase of 60,130 treasury shares	-	-	-	-	(2,229)	(2,229)
Proceeds from sale of 1,610 treasury shares	-	17	-	-	42	59
Cash dividends declared, \$1.20 per share	-	-	<u>(2,168)</u>	-	-	<u>(2,168)</u>
BALANCE AT DECEMBER 31, 2006	23,926	171	31,961	(206)	(4,689)	<u>51,163</u>
Comprehensive income:						
Net income	-	-	5,511	-	-	5,511
Change in net unrealized gain (loss), net of related income taxes	-	-	-	363	-	<u>363</u>
Total comprehensive income	-	-	-	-	-	<u>5,874</u>
Purchase of 41,051 treasury shares	-	-	-	-	(1,598)	(1,598)
Proceeds from sale of 763 treasury shares	-	8	-	-	21	29
Cash dividends declared, \$1.24 per share	-	-	<u>(2,180)</u>	-	-	<u>(2,180)</u>
BALANCE AT DECEMBER 31, 2007	<u>\$23,926</u>	<u>\$ 179</u>	<u>\$35,292</u>	<u>\$ 157</u>	<u>\$ (6,266)</u>	<u>\$53,288</u>

The accompanying notes are an integral part of the consolidated financial statements.

CROGHAN BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 5,511	\$ 5,489	\$ 5,721
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,054	963	930
Provision for loan losses	100	380	705
Deferred federal income taxes	(108)	(40)	118
Federal Home Loan Bank stock dividends	-	(137)	(112)
Increase in cash value of life insurance	(355)	(329)	(314)
Net amortization of security premiums and discounts	189	273	527
Provision (credit) for deferred compensation	-	(83)	108
Loss on sale of securities	-	9	141
Loss on disposal of equipment	-	1	6
Decrease (increase) in accrued interest receivable	355	(77)	-
Decrease (increase) in other assets	(29)	228	93
Increase (decrease) in other liabilities	<u>(185)</u>	<u>32</u>	<u>(53)</u>
Net cash provided by operating activities	<u>6,532</u>	<u>6,709</u>	<u>7,870</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of The Custar State Bank, net of \$2,357 cash and cash equivalents acquired in 2005	-	-	(11,682)
Proceeds from maturities of securities	15,909	23,229	9,450
Proceeds from sales of available-for-sale securities	-	2,883	14,455
Proceeds from disposal of equipment	11	-	-
Purchases of securities:			
Available-for-sale	(5,114)	(6,626)	(28,720)
Restricted stock	-	-	(305)
Net decrease (increase) in loans	6,422	(16,772)	11,771
Additions to premises and equipment	<u>(756)</u>	<u>(1,356)</u>	<u>(685)</u>
Net cash provided by (used in) investing activities	<u>16,472</u>	<u>1,358</u>	<u>(5,716)</u>

CROGHAN BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Years ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in deposits	\$ (8,361)	\$ 2,735	\$ 1,565
Increase (decrease) in federal funds purchased and securities sold under repurchase agreements	(4,282)	4,563	1,031
Borrowed funds:			
Proceeds	19,000	5,000	9,500
Repayments	(12,100)	(16,450)	(9,400)
Proceeds from sale of treasury shares	29	59	71
Cash dividends paid	(2,175)	(2,167)	(2,167)
Purchase of treasury stock	(1,598)	(2,229)	(1,943)
Payment of deferred compensation	(11)	(73)	(60)
Net cash used in financing activities	<u>(9,498)</u>	<u>(8,562)</u>	<u>(1,403)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,506	(495)	751
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>11,843</u>	<u>12,338</u>	<u>11,587</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$25,349</u></u>	<u><u>\$ 11,843</u></u>	<u><u>\$ 12,338</u></u>
SUPPLEMENTAL DISCLOSURES			
Cash paid during the year for:			
Interest	<u>\$10,773</u>	<u>\$ 9,420</u>	<u>\$ 6,979</u>
Federal income taxes	<u>\$ 2,365</u>	<u>\$ 2,285</u>	<u>\$ 2,469</u>
Non-cash operating activity:			
Change in deferred income taxes on net unrealized gain (loss) on available-for-sale securities	<u>\$ (187)</u>	<u>\$ (42)</u>	<u>\$ 341</u>
Non-cash investing activity:			
Change in net unrealized gain (loss) on available-for-sale securities	<u>\$ 550</u>	<u>\$ 123</u>	<u>\$ (1,003)</u>

The accompanying notes are an integral part of the consolidated financial statements.

CROGHAN BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Croghan Bancshares, Inc. (the "Corporation") was incorporated on September 27, 1983 in the state of Ohio. The Corporation is a bank holding company and has one wholly-owned subsidiary, The Croghan Colonial Bank (the "Bank"). The Corporation, through its subsidiary, operates in one industry segment, the commercial banking industry. The Bank, an Ohio chartered bank organized in 1888, has its main office in Fremont, Ohio and has branch offices located in Bellevue, Clyde, Custar, Fremont, Green Springs, Monroeville, Norwalk and Port Clinton, Ohio. The Bank's primary source of revenue is providing loans to customers primarily located in Sandusky County, Ottawa County, Wood County, the Village of Green Springs and the northwest portion of Huron County, which includes the Cities of Bellevue and Norwalk and the Village of Monroeville. Such customers are predominantly small and middle-market businesses and individuals.

Significant accounting policies followed by the Corporation are presented below.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during each reporting period. Actual results could differ from those estimates. The most significant estimates susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the estimated liability for supplemental retirement benefits.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

The Bank established a trust department in 1990 and the assets held by the Bank in fiduciary or agency capacities for its customers are not included in the consolidated balance sheets as such items are not assets of the Bank.

CASH AND CASH EQUIVALENTS

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold which mature overnight or within four days.

RESTRICTIONS ON CASH

The Bank was required to have \$275,000 of non-interest bearing cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements at December 31, 2007 and 2006.

SECURITIES

Securities are designated at the time of purchase as either held-to-maturity or available-for-sale. Securities designated as held-to-maturity are carried at amortized cost. Securities designated as available-for-sale are carried at fair value, with unrealized gains and losses, net of applicable income taxes, on such securities recognized as a separate component of stockholders' equity.

The cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in interest income from securities, principally using the interest method over the terms of the securities. Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

Restricted stock consists primarily of Federal Home Loan Bank of Cincinnati and Federal Reserve Bank of Cleveland stock. Such securities are carried at cost and evaluated for impairment on an annual basis.

Gains and losses on sales of securities are recorded on the trade date, using the specific identification method, and are included in non-interest income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LOANS

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at their outstanding principal balances, adjusted for charge-offs, the allowance for loan losses, and any deferred loan fees or costs on originated loans. Interest is accrued on the unpaid principal balance. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan.

The accrual of interest on real estate and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Personal loans are typically charged-off no later than 120 days past due and credit card loans are typically charged-off no later than 180 days past due. All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on nonaccrual loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and secondary components. For loans that are classified as impaired, a specific reserve is established when the discounted cash flow (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers classified (i.e., doubtful, substandard, or special mention) loans which are not impaired, as well as non-classified loans and is generally based on historical loss experience adjusted for qualitative factors. The secondary component is maintained to cover economic and other external factors that could affect management's estimate of probable losses and considers the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential mortgage loans for impairment disclosures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FORECLOSED ASSETS

Assets acquired through or in lieu of foreclosure are initially recorded at fair value, less estimated costs to sell, and any loan balance in excess of fair value is charged to the allowance for loan losses. Subsequent valuations are periodically performed and any further write-downs are included in other operating expenses, as are gains or losses upon sale and expenses related to maintenance of the properties.

PREMISES AND EQUIPMENT

Premises and equipment is stated at cost, less accumulated depreciation. Upon the sale or disposition of the assets, the difference between the depreciated cost and proceeds is charged or credited to income. Depreciation is determined based on the estimated useful lives of the individual assets (typically 20 to 40 years for buildings and 3 to 10 years for equipment) and is computed primarily using the straight-line method.

OFF-BALANCE SHEET CREDIT RELATED FINANCIAL INSTRUMENTS

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

TRANSFERS OF FINANCIAL ASSETS

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

GOODWILL AND CORE DEPOSIT INTANGIBLE ASSET

Goodwill remaining from the 1996 purchase of Union Bancshares Corp. has been combined with the goodwill arising from the 2005 purchase of The Custar State Bank ("Custar"). The resulting total goodwill is tested for impairment at least annually to determine if an impairment loss has occurred. The core deposit intangible asset arising from the 2005 purchase of Custar is being amortized over an eight-year period on a straight-line basis. Estimated future amortization of the core deposit intangible asset is as follows: 2008, \$58,000; 2009, \$57,000; 2010 and 2011, \$58,000; and 2012, \$57,000.

SUPPLEMENTAL RETIREMENT BENEFITS

Annual provisions are made for the estimated liability for accumulated supplemental retirement benefits under agreements with one active and four retired officers at December 31, 2007.

ADVERTISING COSTS

All advertising costs are expensed as incurred.

FEDERAL INCOME TAXES

Deferred income taxes are provided on temporary differences between financial statement and income tax reporting. Temporary differences are differences between the amounts of assets and liabilities reported for financial statement purposes and their tax bases. Deferred tax assets are recognized for temporary differences that will be deductible in future years' tax returns and for operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance if it is deemed more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax liabilities are recognized for temporary differences that will be taxable in future years' tax returns. Benefits from tax positions taken or expected to be taken in a tax return are not recognized if the likelihood that the tax position would be sustained upon examination by a taxing authority is considered to be 50% or less.

The Bank is not currently subject to state and local income taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**COMPREHENSIVE INCOME**

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

PER SHARE DATA

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. This computation is referred to as "basic earnings per share."

Dividends per share are based on the number of shares outstanding at the declaration date.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2007 and 2006 consisted of the following:

	2007 (Dollars in thousands)	2006 (Dollars in thousands)
Cash and due from banks	\$14,072	\$11,843
Interest-bearing deposits in other banks	5,977	-
Federal funds sold	<u>5,300</u>	<u>-</u>
Total	<u>\$25,349</u>	<u>\$11,843</u>

NOTE 3 - SECURITIES

The amortized cost and fair value of securities as of December 31, 2007 and 2006 were as follows:

	2007 (Dollars in thousands)		2006 (Dollars in thousands)	
	Amortized cost	Fair value	Amortized cost	Fair value
Available-for-sale:				
Obligations of U.S. Government agencies and corporations	\$27,278	\$27,395	\$35,711	\$35,418
Obligations of states and political subdivisions	19,478	19,599	21,524	21,505
Other	<u>350</u>	<u>350</u>	<u>350</u>	<u>350</u>
Total available-for-sale	47,106	47,344	57,585	57,273
Held-to-maturity – corporate debt obligations	506	534	1,011	1,027
Restricted stock	<u>3,629</u>	<u>3,629</u>	<u>3,629</u>	<u>3,629</u>
Total	<u>\$51,241</u>	<u>\$51,507</u>	<u>\$62,225</u>	<u>\$61,929</u>

NOTE 3 - SECURITIES (CONTINUED)

A summary of gross unrealized gains and losses on securities at December 31, 2007 and 2006 follows:

	2007		2006	
	Gross unrealized gains	Gross unrealized losses (Dollars in thousands)	Gross unrealized gains	Gross unrealized losses
Available-for-sale:				
Obligations of U.S. Government agencies and corporations	\$ 164	\$ 47	\$ 63	\$ 356
Obligations of states and political subdivisions	<u>163</u>	<u>42</u>	<u>113</u>	<u>132</u>
Total available-for-sale	327	89	176	488
Held-to-maturity – corporate debt obligations	<u>28</u>	<u>-</u>	<u>19</u>	<u>3</u>
Total	<u>\$ 355</u>	<u>\$ 89</u>	<u>\$ 195</u>	<u>\$ 491</u>

The amortized cost and fair value of securities at December 31, 2007, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		Held-to-maturity	
	Amortized cost	Fair value (Dollars in thousands)	Amortized cost	Fair value
Due in one year or less	\$ 5,300	\$ 5,285	\$ -	\$ -
Due after one year through five years	11,512	11,530	506	534
Due after five years through ten years	11,861	11,963	-	-
Due after ten years	18,083	18,216	-	-
Other equity security having no maturity date	<u>350</u>	<u>350</u>	<u>-</u>	<u>-</u>
Total	<u>\$47,106</u>	<u>\$47,344</u>	<u>\$ 506</u>	<u>\$ 534</u>

Securities with a carrying value of \$35,632,000 at December 31, 2007 and \$48,986,000 at December 31, 2006 were pledged to secure public deposits and for other purposes as required or permitted by law.

Restricted stock primarily consists of investments in Federal Home Loan Bank of Cincinnati and Federal Reserve Bank of Cleveland stock. The Bank's investment in Federal Home Loan Bank of Cincinnati stock amounted to \$2,452,000 at December 31, 2007 and 2006. The Bank's investment in Federal Reserve Bank of Cleveland stock amounted to \$1,118,000 at December 31, 2007 and 2006.

Gross gains realized from sales of available-for-sale securities amounted to \$6,000 in 2006, and \$48,000 in 2005 (none in 2007), with the income tax provision applicable to such gains amounting to \$2,000 in 2006 and \$16,000 in 2005 (none in 2007). Gross losses realized from sales of available-for-sale securities amounted to \$15,000 in 2006 and \$189,000 in 2005 (none in 2007), with the income tax provision applicable to such losses amounting to \$5,000 in 2006 and \$64,000 in 2005 (none in 2007).

NOTE 3 - SECURITIES (CONTINUED)

The following table presents gross unrealized losses and fair value of securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2007 and 2006:

	Securities in a continuous unrealized loss position					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
	(Dollars in thousands)					
2007						
Obligations of U.S. Government agencies and corporations	\$ -	\$ -	\$ 47	\$12,525	\$ 47	\$12,525
Obligations of states and political subdivisions	<u>11</u>	<u>769</u>	<u>31</u>	<u>4,537</u>	<u>42</u>	<u>5,306</u>
Total temporarily impaired securities	<u>\$ 11</u>	<u>\$ 769</u>	<u>\$ 78</u>	<u>\$17,062</u>	<u>\$ 89</u>	<u>\$17,831</u>
2006						
Obligations of U.S. Government agencies and corporations	\$ 4	\$ 2,996	\$353	\$26,052	\$357	\$29,048
Obligations of states and political subdivisions	6	3,053	125	7,348	131	10,401
Corporate debt obligations	<u>-</u>	<u>-</u>	<u>3</u>	<u>500</u>	<u>3</u>	<u>500</u>
Total temporarily impaired securities	<u>\$ 10</u>	<u>\$ 6,049</u>	<u>\$481</u>	<u>\$33,900</u>	<u>\$491</u>	<u>\$39,949</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2007, there were 34 securities in an unrealized loss position, 32 of which were in a continuous unrealized loss position for twelve months or more. When evaluating these securities for impairment, management considers the issuer's financial condition, whether the securities are issued by federally-sponsored government agencies or political subdivisions, whether downgrades by the bond rating agencies have occurred, industry analyst reports, and volatility in the bond market. Management has concluded that the unrealized losses as of December 31, 2007 were primarily the result of customary and expected fluctuations in the bond market related to changes in interest rates. As management has the ability and intent to hold debt securities until maturity, or for the foreseeable future for securities classified as available-for-sale, all security impairments as of December 31, 2007 are considered temporary.

NOTE 4 - LOANS

Loans at December 31, 2007 and 2006 consisted of the following:

	2007	2006
	(Dollars in thousands)	
Commercial, financial and agricultural	\$ 38,057	\$ 42,846
Real estate:		
Residential mortgage	146,664	151,330
Non-residential mortgage	135,743	125,755
Construction	11,427	13,467
Consumer	15,838	21,111
Credit card	<u>2,785</u>	<u>2,769</u>
Total	<u>\$350,514</u>	<u>\$357,278</u>

Fixed rate loans amounted to \$90,260,000 at December 31, 2007 and \$94,299,000 at December 31, 2006.

NOTE 4 - LOANS (CONTINUED)

The Bank's investment in impaired loans amounted to \$2,285,000 at December 31, 2007 and \$3,183,000 at December 31, 2006. The following information is provided with respect to impaired loans:

	2007	2006	2005
	(Dollars in thousands)		
Average investment in impaired loans	<u>\$3,119</u>	<u>\$2,862</u>	<u>\$ 737</u>
Interest income recognized on impaired loans	<u>\$ 176</u>	<u>\$ -</u>	<u>\$ -</u>
Interest income recognized on a cash basis on impaired loans	<u>\$ 176</u>	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2007, impaired loans totaling \$2,285,000 had a related allowance for loan losses of \$909,000 (\$3,183,000 and \$865,000, respectively, at December 31, 2006). The following is a summary of the activity in the allowance for loan losses of impaired loans, which is part of the Bank's overall allowance for loan losses for the years ended December 31, 2007 and 2006:

	2007	2006
	(Dollars in thousands)	
Balance at beginning of year	\$865	\$426
Provision charged to operations	116	439
Loans charged-off	<u>(72)</u>	<u>-</u>
Balance at end of year	<u>\$909</u>	<u>\$865</u>

No additional funds are committed to be advanced in connection with impaired loans.

Loans on nonaccrual of interest amounted to \$2,285,000 at December 31, 2007 and \$3,795,000 at December 31, 2006. Loans 90 days or more past due and still accruing interest amounted to \$237,000 at December 31, 2007 and \$716,000 at December 31, 2006.

Certain directors and executive officers, including their immediate families and companies in which they are principal owners, are loan customers of the Bank. Such loans are made in the ordinary course of business in accordance with the Bank's normal lending policies, including the interest rate charged and collateralization, and do not represent more than a normal collection risk. Such loans amounted to \$864,000 and \$848,000 at December 31, 2007 and 2006, respectively. The following is a summary of activity during 2007 and 2006 for such loans:

	Balance at beginning	Additions	Repayments	Balance at end
		(Dollars in thousands)		
2007	<u>\$ 848</u>	<u>\$ 133</u>	<u>\$ 117</u>	<u>\$ 864</u>
2006	<u>\$1,955</u>	<u>\$ 205</u>	<u>\$1,312</u>	<u>\$ 848</u>

Additions and repayments include loan renewals.

Most of the Bank's lending activity is with customers primarily located within Sandusky County, Ottawa County, Wood County, the Village of Green Springs, and the northwest portion of Huron County. Credit concentrations, as determined using the North American Industry Classification System, that exceeded 5% of total loans at December 31, 2007 and 2006 included \$19,989,000 and \$24,779,000, respectively, to borrowers in the construction industry; \$30,668,000 and \$33,302,000, respectively, to borrowers in the accommodation and food service industry; and \$33,627,000 and \$33,471,000, respectively, to borrowers in the manufacturing industry.

The construction industry concentration includes loans to residential and commercial contractors who construct or install roads, sewers, bridges, homes, hotels, motels, apartment or commercial buildings, electrical and plumbing infrastructure, and air comfort systems. These loans are generally secured by real property, equipment, and receivables. Repayment is expected from cash flow from providing such services.

NOTE 4 - LOANS (CONTINUED)

The accommodation and food service industry concentration includes loans for the construction, purchase, and operation of hotels, restaurants, lounges, and campgrounds. These loans are generally secured by real property and equipment. Repayment is expected from cash flow from providing accommodations and food service to tourists visiting the Lake Erie region.

The manufacturing industry concentration includes loans to local manufacturers who produce goods for a wide variety of industries, including chemical, automotive, and food processing. These loans are generally secured by real property, equipment, and receivables. Repayment is expected from cash flows generated from these operations.

Credit losses arising from the Bank's lending experience in both industries compare favorably with the Bank's loss experience on its loan portfolio as a whole. Credit evaluation of construction industry and accommodation and food service industry lending is based on an evaluation of cash flow coverage of principal and interest payments and the adequacy of collateral received.

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The following represents a summary of the activity in the allowance for loan losses for the years ended December 31, 2007, 2006 and 2005:

	2007	2006	2005
	(Dollars in thousands)		
Balance at beginning of year	\$3,600	\$3,624	\$3,431
Provision charged to operations	100	380	705
Addition resulting from the Custar acquisition	-	-	241
Loans charged-off	(499)	(601)	(1,011)
Recoveries of loans charged-off	<u>157</u>	<u>197</u>	<u>258</u>
Balance at end of year	<u>\$3,358</u>	<u>\$3,600</u>	<u>\$3,624</u>

NOTE 6 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment at December 31, 2007 and 2006:

	2007	2006
	(Dollars in thousands)	
Land and improvements	\$ 1,453	\$ 1,350
Buildings	10,199	8,961
Equipment	5,386	5,059
Construction in-process	<u>72</u>	<u>1,006</u>
	17,110	16,376
Less accumulated depreciation	<u>9,457</u>	<u>8,472</u>
Premises and equipment, net	<u>\$ 7,653</u>	<u>\$ 7,904</u>

Construction in-process at December 31, 2006 primarily consisted of capitalized costs relating to the renovation of the Corporation's headquarters, as well as construction of a new branch office in Clyde. These projects were completed during the first quarter of 2007 at an aggregate completed cost of \$1,250,000.

Depreciation of premises and equipment amounted to \$996,000 in 2007, \$906,000 in 2006 and \$835,000 in 2005.

NOTE 7 - DEPOSITS

Time deposits at December 31, 2007 and 2006 included individual deposits of \$100,000 and over amounting to \$36,975,000 and \$35,897,000, respectively. Interest expense on time deposits of \$100,000 or more amounted to \$1,541,000 for 2007, \$1,623,000 for 2006 and \$1,203,000 for 2005.

At December 31, 2007, the scheduled maturities of time deposits were as follows (dollars in thousands):

2008	\$128,811
2009	11,809
2010	4,982
2011	2,331
2012	1,078
Thereafter	<u>434</u>
Total	<u>\$149,445</u>

NOTE 8 - BORROWED FUNDS

At December 31, 2007 and 2006, borrowed funds consisted of the following:

	2007 (Dollars in thousands)	2006 (Dollars in thousands)
Federal Home Loan Bank:		
Secured note, with interest at 5.22%, due February 2007	\$ -	\$ 5,000
Secured note, with interest at 4.42%, due July 2007	-	1,500
Secured note, with interest at 4.30%, due September 2007	-	4,000
Secured note, with interest at 4.62%, due March 2009	4,000	-
Secured notes, with interest at 3.87%, due December 2010	10,000	-
Secured note, with interest at 4.32%, due February 2011	3,000	3,000
Secured note, with interest at 4.86%, due December 2012	2,500	2,500
Secured note, with interest at 4.45%, due February 2017	<u>5,000</u>	<u>-</u>
	24,500	16,000
Great Lakes Bankers Bank – secured note with interest payable annually at .50% below prime rate (aggregating 7.75% at December 31, 2006). Balance of loan was paid in 2007.	<u>-</u>	<u>1,600</u>
Total borrowed funds	<u>\$24,500</u>	<u>\$17,600</u>

Scheduled principal payments on borrowed funds at December 31, 2007 were as follows:

	Fixed	Floating	Total
	(Dollars in thousands)		
2009	\$ 4,000	\$ -	\$ 4,000
2010	10,000	-	10,000
2011	3,000	-	3,000
2012	2,500	-	2,500
2017	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total	<u>\$24,500</u>	<u>\$ -</u>	<u>\$24,500</u>

NOTE 8 - BORROWED FUNDS (CONTINUED)

The Federal Home Loan Bank notes stipulate interest payable on a monthly basis. The notes are secured by stock in the Federal Home Loan Bank of Cincinnati and eligible mortgage loans totaling \$33,075,000 at December 31, 2007.

At December 31, 2007, the Bank had available borrowings of \$63,702,000 under its line of credit with the Federal Home Loan Bank. In addition, the Bank had \$29,500,000 of short-term borrowing availability at December 31, 2007, under lines of credit with four correspondent banks.

NOTE 9 - SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

NOTE 10 - OTHER COMPREHENSIVE INCOME (LOSS)

The changes in the components of other comprehensive income (loss) and related tax effects were as follows for the years ended December 31, 2007, 2006 and 2005:

	2007	2006	2005
	(Dollars in thousands)		
Unrealized gains (losses) on available-for-sale securities	\$ 550	\$ 114	\$(1,144)
Reclassification adjustments for securities losses included in income	<u>-</u>	<u>9</u>	<u>141</u>
Net unrealized gains (losses)	550	123	(1,003)
Tax effect	<u>187</u>	<u>42</u>	<u>341</u>
Net-of-tax amount	<u>\$ 363</u>	<u>\$ 81</u>	<u>\$ (662)</u>

NOTE 11 - OTHER OPERATING EXPENSES

The following is a summary of other operating expenses for the years ended December 31, 2007, 2006 and 2005:

	2007	2006	2005
	(Dollars in thousands)		
Equipment and vehicle	\$1,196	\$1,053	\$1,020
Professional and examination	619	509	620
Postage, stationery and supplies	513	502	509
State franchise and other taxes	496	473	349
Advertising and marketing	179	233	223
Third party computer processing	241	228	222
MasterCard franchise and processing	155	153	147
Other	<u>1,275</u>	<u>1,308</u>	<u>1,316</u>
Total other operating expenses	<u>\$4,674</u>	<u>\$4,459</u>	<u>\$4,406</u>

NOTE 12 - FEDERAL INCOME TAXES

The provision for federal income taxes consisted of the following for 2007, 2006 and 2005:

	2007	2006	2005
	(Dollars in thousands)		
Current	\$2,456	\$2,329	\$2,215
Deferred	<u>(108)</u>	<u>(40)</u>	<u>118</u>
Total	<u>\$2,348</u>	<u>\$2,289</u>	<u>\$2,333</u>

NOTE 12 - FEDERAL INCOME TAXES (CONTINUED)

The income tax provision attributable to income from operations differs from the amounts computed by applying the U.S. federal income tax rate of 34% to income before federal income taxes as a result of the following:

	2007	2006	2005
	(Dollars in thousands)		
Expected tax using statutory tax rate of 34%	\$2,672	\$2,645	\$2,738
Increase (decrease) in tax resulting from:			
Tax-exempt income on state and municipal securities and political subdivision loans	(264)	(310)	(310)
Interest expense associated with carrying certain state and municipal securities and political subdivision loans	34	36	27
Increase in cash value of life insurance policies	(121)	(112)	(107)
Other, net	<u>27</u>	<u>30</u>	<u>(15)</u>
Total	<u>\$2,348</u>	<u>\$2,289</u>	<u>\$2,333</u>

The deferred federal income tax credit of \$108,000 in 2007 and \$40,000 in 2006, and the deferred federal income tax provision of \$118,000 in 2005, resulted from the tax effects of temporary differences. There was no impact for changes in tax laws and rates or changes in the valuation allowance for deferred tax assets.

The tax effects of temporary differences that give rise to significant portions of the deferred tax liabilities and deferred tax assets at December 31, 2007 and 2006 are presented below:

	2007	2006
	(Dollars in thousands)	
Deferred tax liabilities:		
Unrealized gain on securities available-for-sale	\$ 81	\$ -
Purchase accounting basis difference	322	365
Depreciation of premises and equipment	179	249
Federal Home Loan Bank stock dividends	421	421
Direct financing leases	385	500
Deferred loan costs and other	<u>47</u>	<u>42</u>
Total deferred tax liabilities	<u>1,435</u>	<u>1,577</u>
Deferred tax assets:		
Unrealized loss on securities available-for-sale	-	106
Allowance for loan losses	722	816
Accrued expenses and other	<u>470</u>	<u>491</u>
Total deferred tax assets	<u>1,192</u>	<u>1,413</u>
Net deferred tax liabilities	<u>\$ 243</u>	<u>\$ 164</u>

The net deferred tax liabilities at December 31, 2007 and 2006 are included in "Other liabilities" in the consolidated balance sheets.

Management believes it is more likely than not that the benefit of deferred tax assets will be realized. Consequently, no valuation allowance for deferred tax assets was deemed necessary as of December 31, 2007 and 2006.

The Corporation adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on January 1, 2007. The Corporation has adopted the policy of classifying any interest and penalties resulting from the filing of its income tax returns in the provision for income taxes. The Corporation had no significant unrecognized tax benefits as of January 1, 2007 and, likewise, no significant unrecognized tax benefits that, if recognized, would affect the effective tax rates. The Corporation also had no accrued interest or penalties recorded as of the date of the adoption. Management has determined the Corporation has no tax positions for which it deems reasonably possible that the total amounts of the unrecognized tax benefit will significantly increase or decrease within the 12 months subsequent to December 31, 2007. The tax years that remain open and subject to examination as of December 31, 2007 are years 2004-2006 for Federal and the state of Ohio.

NOTE 13 - EMPLOYEE BENEFITS

The Bank sponsors the Croghan Colonial Bank 401(k) Profit Sharing Plan, a defined contribution plan which provides for both profit sharing and employer matching contributions. The Plan permits the investing in the Corporation's common shares subject to various limitations. The Bank's profit sharing and matching contributions to the 401(k) profit sharing plan for the years ended December 31, 2007, 2006 and 2005 amounted to \$334,000, \$316,000 and \$297,000, respectively. The issuance of shares from treasury in 2007, 2006 and 2005, represented shares purchased by the Plan. As of December 31, 2007, the Plan held 17,756 common shares of the Corporation.

The Bank has entered into various split-dollar life insurance arrangements, including agreements with certain officers of the Bank to provide for supplemental retirement benefits. The Bank has also entered into other split-dollar life insurance arrangements for investment purposes. All split-dollar policies required the payment of single premiums. The cash value of all split-dollar policies amounted to \$10,227,000 and \$9,872,000 at December 31, 2007 and 2006, respectively.

In connection with the officer agreements, the Bank has provided an estimated liability for accumulated supplemental retirement benefits. Such liability amounted to \$496,000 at December 31, 2007 and \$507,000 at December 31, 2006 and is included in "Other liabilities" in the accompanying consolidated balance sheets. The provision (credit) for deferred compensation amounted to \$(83,000) for 2006 and \$108,000 for 2005 (none for 2007). The 2006 credit resulted from the resignation in 2006 of an officer of the Company who was covered under one of the agreements.

No other post-retirement or post-employment benefits are offered to retirees or employees.

The shareholders of the Corporation have approved the adoption of a stock option and incentive plan. However, no options or incentives have been awarded under the plan.

NOTE 14 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are primarily loan commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the consolidated balance sheets. The contract amount of these instruments reflects the extent of involvement the Bank has in these financial instruments.

The Bank's exposure to credit loss in the event of the nonperformance by the other party to the financial instruments for loan commitments to extend credit and letters of credit is represented by the contractual amounts of these instruments. The Bank uses the same credit policies in making loan commitments as it does for on-balance sheet loans.

The following financial instruments whose contract amount represents credit risk were outstanding at December 31, 2007 and 2006:

	Contract amount	
	2007	2006
	(Dollars in thousands)	
Commitments to extend credit, including commitments to grant loans and unfunded commitments under lines of credit	<u>\$69,374</u>	<u>\$71,283</u>
Standby letters of credit	<u>\$ 360</u>	<u>\$ 2,156</u>

NOTE 14 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (CONTINUED)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable; inventory; property, plant, and equipment; and income-producing commercial properties.

Standby letters of credit are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party and are reviewed for renewal at expiration. At December 31, 2007, the bank had outstanding standby letters of credit expiring in 2008 which aggregated \$352,000, and outstanding standby letters of credit expiring in 2009 of \$8,000. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The Bank requires collateral supporting these commitments when deemed necessary.

NOTE 15 - REGULATORY MATTERS

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2007 and 2006, that the Corporation and the Bank met all capital adequacy requirements to which they were subject.

As of December 31, 2007, the most recent notification from federal and state banking agencies categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

NOTE 15 - REGULATORY MATTERS (CONTINUED)

The actual capital amounts and ratios of the Corporation and Bank as of December 31, 2007 and 2006 are also presented in the following table:

	Actual		Minimum capital requirement		Minimum to be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$45,771	13.6%	\$26,890	≥8.0%	N/A	N/A
Bank	45,323	13.5%	26,862	≥8.0%	\$33,577	≥10.0%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	42,413	12.6%	13,445	≥4.0%	N/A	N/A
Bank	36,965	11.0%	13,431	≥4.0%	20,146	≥ 6.0%
Tier I Capital (to Average Assets)						
Consolidated	42,413	9.7%	17,574	≥4.0%	N/A	N/A
Bank	36,965	8.4%	17,560	≥4.0%	21,951	≥ 5.0%
As of December 31, 2006						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$44,193	12.9%	\$27,377	≥8.0%	N/A	N/A
Bank	45,368	13.3%	27,349	≥8.0%	\$34,186	≥10.0%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	40,593	11.9%	13,688	≥4.0%	N/A	N/A
Bank	36,768	10.8%	13,674	≥4.0%	20,511	≥ 6.0%
Tier I Capital (to Average Assets)						
Consolidated	40,593	9.2%	17,711	≥4.0%	N/A	N/A
Bank	36,768	8.3%	17,697	≥4.0%	22,122	≥ 5.0%

On a parent company only basis, the Corporation's primary source of funds are dividends paid by the Bank. The ability of the Bank to pay dividends is subject to limitations under various laws and regulations, and to prudent and sound banking principles. Generally, subject to certain minimum capital requirements, the Bank may declare a dividend without the approval of the State of Ohio Division of Financial Institutions, unless the total dividends in a calendar year exceed the total of its net profits for the year combined with its retained profits of the two preceding years. Under these provisions, approximately \$202,000 was available for dividends by the Bank to the Corporation on January 1, 2008, without the need to obtain the approval of the State of Ohio Division of Financial Institutions.

The Board of Governors of the Federal Reserve System generally considers it to be an unsafe and unsound banking practice for a bank holding company to pay dividends except out of current operating income, although other factors such as overall capital adequacy and projected income may also be relevant in determining whether dividends should be paid.

NOTE 16 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION

A summary of condensed financial information of the Corporation as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 was as follows:

CONDENSED BALANCE SHEETS		2007	2006
		(Dollars in thousands)	
Assets:			
Cash		\$ 13	\$ 23
Dividends receivable from subsidiary		541	636
Investment in subsidiary		47,839	47,337
Subordinated note receivable from subsidiary, including accrued interest of \$100 in 2007 and \$101 in 2006		5,100	5,101
Security, at cost which approximates fair value		350	350
Other assets		<u>3</u>	<u>24</u>
Total assets		<u>\$53,846</u>	<u>\$53,471</u>
Liabilities:			
Borrowed funds		\$ -	\$ 1,600
Dividends and other payables		<u>558</u>	<u>708</u>
Total liabilities:		<u>558</u>	<u>2,308</u>
Stockholders' equity:			
Common stock		23,926	23,926
Surplus		179	171
Retained earnings		35,292	31,961
Accumulated other comprehensive income (loss)		157	(206)
Treasury stock		<u>(6,266)</u>	<u>(4,689)</u>
Total stockholders' equity		<u>53,288</u>	<u>51,163</u>
Total liabilities and stockholders' equity		<u>\$53,846</u>	<u>\$53,471</u>

CONDENSED STATEMENTS OF OPERATIONS		2007	2006	2005
		(Dollars in thousands)		
Income – dividends from subsidiary		\$5,378	\$5,472	\$ 5,608
Interest income on subordinated note from subsidiary		200	200	200
Professional fees, interest and other expenses		<u>(209)</u>	<u>(270)</u>	<u>(381)</u>
Income before income taxes and equity in undistributed net income of subsidiary		5,369	5,402	5,427
Federal income tax credit		<u>(3)</u>	<u>(24)</u>	<u>(62)</u>
Income before equity in undistributed net income of subsidiary		5,372	5,426	5,489
Equity in net income of subsidiary, less dividends		<u>139</u>	<u>63</u>	<u>232</u>
Net income		<u>\$5,511</u>	<u>\$5,489</u>	<u>\$ 5,721</u>

NOTE 16 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION (CONTINUED)
CONDENSED STATEMENTS OF CASH FLOWS

	2007	2006	2005
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	\$ 5,511	\$ 5,489	\$ 5,721
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in net income of subsidiary, less dividends	(139)	(63)	(232)
Decrease (increase) in dividends receivable	95	(101)	9,995
Decrease (increase) in accrued interest receivable	1	(26)	(44)
Decrease in other assets	21	38	37
Increase (decrease) in other liabilities	(155)	(27)	28
Net cash provided by operating activities	<u>5,334</u>	<u>5,310</u>	<u>15,505</u>
Cash flows from investing activities – purchase of Custar	<u>-</u>	<u>-</u>	<u>(14,039)</u>
Cash flows from financing activities:			
Borrowed funds:			
Proceeds	\$ -	\$ -	\$ 4,000
Repayments	(1,600)	(1,150)	(1,250)
Proceeds from sale of treasury shares	29	59	71
Cash dividends paid	(2,175)	(2,167)	(2,167)
Purchase of treasury stock	(1,598)	(2,229)	(1,943)
Net cash used in financing activities	<u>(5,344)</u>	<u>(5,487)</u>	<u>(1,289)</u>
Net increase (decrease) in cash	(10)	(177)	177
Cash at beginning of year	<u>23</u>	<u>200</u>	<u>23</u>
Cash at end of year	<u>\$ 13</u>	<u>\$ 23</u>	<u>\$ 200</u>

Under a program initially approved by the Board of Directors in 2002, the Corporation periodically purchases its common shares in the over-the-counter market. Continuation of the program has been approved by the Board of Directors on a regular basis.

The decision whether to purchase shares, the number of shares to be purchased and the price to be paid depends upon the availability of shares, prevailing market prices, and other possible considerations which might affect the advisability of purchasing shares. Since the February 2002 inception of the stock buy-back program, the Corporation has repurchased 176,753 common shares in the open market, of which 168,691 remained as treasury stock at December 31, 2007.

NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of recognized financial instruments at December 31, 2007 and 2006 were as follows:

	2007		2006	
	Carrying amount	Estimated fair value (Dollars in thousands)	Carrying amount	Estimated fair value
FINANCIAL ASSETS				
Cash and cash equivalents	\$ 25,349	\$ 25,349	\$ 11,843	\$ 11,843
Securities	51,479	51,507	61,913	61,929
Loans, net	<u>347,156</u>	<u>347,627</u>	<u>353,678</u>	<u>350,836</u>
Total	<u>\$423,984</u>	<u>\$424,483</u>	<u>\$427,434</u>	<u>\$424,608</u>
FINANCIAL LIABILITIES				
Deposits	\$362,833	\$362,965	\$371,194	\$371,181
Federal funds purchased and securities sold under repurchase agreements	11,106	10,761	15,388	14,790
Borrowed funds	<u>24,500</u>	<u>24,624</u>	<u>17,600</u>	<u>17,319</u>
Total	<u>\$398,439</u>	<u>\$398,350</u>	<u>\$404,182</u>	<u>\$403,290</u>

The preceding summary does not include accrued interest receivable, cash surrender value of life insurance, dividends payable, and other liabilities which are also considered financial instruments. The estimated fair value of such items is considered to be their carrying amount.

The Bank also has unrecognized financial instruments which relate to commitments to extend credit and standby letters of credit. The contract amount of such financial instruments, \$69,734,000 at December 31, 2007 and \$73,439,000 at December 31, 2006, is considered to be the fair value since they represent commitments at current interest rates.

The following methods and assumptions were used to estimate fair value of each class of financial instruments:

Cash and cash equivalents:

Fair value is determined to be the carrying amount for these items because they represent cash or mature in 90 days or less and do not represent unanticipated credit concerns.

Securities:

The fair value of securities (both available-for-sale and held-to-maturity) is determined based on quoted market prices of the individual securities or, if not available, estimated fair value was obtained by comparison to other known securities with similar risk and maturity characteristics. Such value does not consider possible tax ramifications or estimated transaction costs. The fair value of restricted stock is considered to be its carrying amount.

Loans:

Fair value for loans was estimated for portfolios of loans with similar financial characteristics. For adjustable rate loans, which re-price at least annually and generally possess low risk characteristics, the carrying amount is believed to be a reasonable estimate of fair value. For fixed rate loans, the fair value is estimated based on a discounted cash flow analysis, considering weighted average rates and terms of the portfolio, adjusted for credit and interest rate risk inherent in the loans. Fair value for nonperforming loans is based on recent appraisals or estimated discounted cash flows. The estimated value of credit card loans is based on existing loans and does not include the value that relates to estimated cash flows from new loans generated from existing cardholders over the remaining life of the portfolio.

NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Deposit liabilities:

The fair value of core deposits, including demand deposits, savings accounts, and certain money market deposits, is the amount payable on demand. The fair value of fixed-maturity certificates of deposit is estimated using the rates offered at year end for deposits of similar remaining maturities. The estimated fair value does not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the marketplace.

Other financial instruments:

The fair value of federal funds purchased and securities sold under repurchase agreements, as well as borrowed funds is determined based on a discounted cash flow analysis using current interest rates.

The fair value estimates of financial instruments are made at a specific point in time based on relevant market information. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

NOTE 18 - CONTINGENT LIABILITIES

In the normal course of business, the Corporation and its subsidiary may be involved in various legal actions, but in the opinion of management and its legal counsel, the ultimate disposition of such matters is not expected to have a material adverse effect on the consolidated financial statements.

NOTE 19 - QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of selected quarterly financial data (unaudited) for the years ended December 31, 2007 and 2006:

	Interest income	Net interest income (Dollars in thousands, except per share data)	Net income	Net income per share
2007				
First quarter	\$6,901	\$4,188	\$1,253	\$.70
Second quarter	7,017	4,370	1,408	.80
Third quarter	6,987	4,385	1,487	.85
Fourth quarter	6,847	4,285	1,363	.78
2006				
First quarter	\$6,502	\$4,405	\$1,418	\$.77
Second quarter	6,670	4,369	1,437	.79
Third quarter	6,793	4,263	1,284	.71
Fourth quarter	6,939	4,254	1,350	.76

NOTE 20 - NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (Statement 157) which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Statement 157 emphasizes that fair value is a market-based measurement and should be determined based on assumptions that a market participant would use when pricing an asset or liability. Statement 157 clarifies that market participant assumptions should include assumptions about risk as well as the effect of a restriction on the sale or use of an asset. Additionally, Statement 157 establishes a fair value hierarchy that provides the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Statement 157 is effective for fiscal years beginning after November 17, 2007, and interim periods within those fiscal years. Management does not anticipate the adoption of Statement 157 will have a significant impact on the Corporation's consolidated financial statements.

NOTE 20 - NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* (Statement 159) which permits an entity to choose to measure certain financial instruments and certain other items at fair value, on an instrument-by-instrument basis. Once an entity has elected to record eligible items at fair value, the decision is irrevocable and the entity should report unrealized gains and losses on items for which the fair value option has been elected in earnings. Statement 159 is effective for fiscal years beginning after November 15, 2007. At the effective date, an entity may elect the fair value option for eligible items that exist at that date with the effect of the first measurement to fair value reported as a cumulative-effect adjustment to the opening balance of retained earnings. Management is currently in the process of evaluating what impact, if any; the adoption of Statement 159 will have on the Corporation's consolidated financial statements.

During 2007, the FASB issued EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsed Split-Dollar Life Insurance Arrangements* (EITF 06-4), which concludes an employer should recognize a liability for postemployment benefits promised to an employee based on the substantive arrangement between the employer and the employee. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. While management has not yet completed its analysis of the impact the adoption of EITF 06-4 will have on the Corporation's consolidated financial statements, at the present time, management's best estimate is that the adoption will reduce pre-tax earnings \$250,000 to \$300,000 for the first quarter of 2008.

During 2007, the FASB issued EITF 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance* (EITF 06-10), which stipulates an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement if, based on the substantive arrangement with the employee, the employer has agreed to maintain life insurance during the employee's retirement or provide the employee with a death benefit. Under EITF 06-10, the employer should also recognize an asset based on the substance of the arrangement it has with the employee. EITF 06-10 is effective for fiscal years beginning after December 15, 2007, including interim periods. Management is still evaluating what impact, if any; the adoption of EITF 06-10 will have on the Corporation's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (Statement 141R) which establishes principals and requirements for how an acquirer in a business combination recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, and any noncontrolling interests of the acquiree. Statement 141R also recognizes and measures any goodwill acquired, as well as gain resulting from a bargain purchase option. Statement 141R applies to all transactions or other events in which an entity obtains control of one or more entities and also requires that costs incurred in connection with a business acquisition be expensed as incurred. Statement 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and early adoption is not permitted.

This information is an integral part of the accompanying consolidated financial statements.

LOCATIONS

MAIN

419.332.7301
323 Croghan Street
Fremont, Ohio 43420

WEST

419.355.2352
2001 West State Street
Fremont, Ohio 43420

GREEN SPRINGS

419.639.2225
200 North Broadway Street
Green Springs, Ohio 44836

EAST

419.355.2342
1315 East State Street
Fremont, Ohio 43420

CLYDE

419.547.9525
100 South Main Street
Clyde, Ohio 43410

CUSTAR

419.669.2801
22973 Defiance Pike
Custar, Ohio 43511

BALLVILLE

419.355.2361
1600 River Street
Fremont, Ohio 43420

PORT CLINTON

419.732.7563
3994 East Harbor Road
Port Clinton, Ohio 43452

NORWALK

419.668.2507
60 Whittlesey Avenue
Norwalk, Ohio 44857

BELLEVUE

419.483.7395
One Union Square
Bellevue, Ohio 44811

MONROEVILLE

419.465.2596
11 Monroe Street
Monroeville, Ohio 44847

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